Annual Report | 2012/13

BCTransit
Connecting People and Communities

BRITISH
COLUMBIA

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Message from the Chair to the Minister Responsible

Minister of Transportation and Infrastructure and Minister Responsible for BC Transit

For 2012/13, the combination of a slower than expected economic recovery and lower than anticipated service hours caused ridership to remain flat in most communities and to decline in the Victoria region. Custom and paratransit ridership increased across the province by 1.5 and 2.2 per cent respectively; however, total system ridership decreased by 2.8 per cent. This ridership trend was generally mirrored across North America.

Although there was availability of provincial funding in 2012/13 for expanded service and the public perception of the importance of transit within communities continued to be very strong, only a small number of communities were able to provide their share of the required expansion funds. This resulted in only modest expansions of transit services with ridership gains in Campbell River, Central Fraser Valley, Nanaimo and Kamloops. There were also some communities that responded to the economic challenges they faced by raising fares and/or cutting service hours, which negatively impacted ridership. In the Victoria Region, a labour disruption also resulted in a loss of service hours and a corresponding decline in ridership

During the year, BC Transit was the subject of an independent review of its operations by the "BC Transit Independent Review Panel". This review presented BC Transit with a unique opportunity to have an independent body assist us in sharpening our focus on strengthening relationships with our partners and improving the efficiency and effectiveness of our services across the province. In particular, progress was made in enhancing how BC Transit communicates and works with its local government partners to better budget, plan and implement service changes and to report on our performance. BC Transit worked with our local government partners to implement over 40 service changes in more than 40 communities to maximize system efficiency and effectiveness leading to the achievement of our target of 23 passenger trips per hour. In addition, BC Transit's shared services model assisted in managing transit cost increases down to near the level of inflation (1.6 per cent) allowing all systems to benefit from greater operational, capital and financial efficiencies through economies of scale.

BC Transit worked with local government partners to complete 38 fare structure reviews and to develop innovative strategies to increase sales and reduce fare fraud resulting in gains in revenues. Passenger and advertising revenues were $67.9 million, slightly higher than fiscal 2011/12, and BC Transit posted an operating cost recovery of 32.7 per cent (7.6 per cent above our target) and an operating cost per passenger trip of $4.19 (3.1 per cent lower than target). In addition, the focus on collaboration, innovation and efficiency met with strong partner support as BC Transit's partner satisfaction score increased by 17.1 per cent over the prior year.

Building on these gains, the focus for 2013/14 will remain on strengthening relationships with our partners, implementing the longer term recommendations from the independent review, stabilizing and growing ridership through improved system performance and identifying opportunities to generate additional revenue and contain costs for our partners. These efforts will ensure we continue to lead the country in the delivery of transit services.

Kevin Mahoney
Chair

Accountability Statement

BC Transit's 2012/13 Annual Report was prepared under the direction of the BC Transit Board of Directors (the "Board") in accordance with the *Budget Transparency and Accountability Act* and the *B.C. 2012/13 Crown Corporation Annual Report Guidelines*. The information presented was prepared in accordance with the *B.C. Reporting Principles*[1] and represents a comprehensive picture of BC Transit's actual performance for the 12 months ended March 31, 2013 in relation to its 2012/13 – 2014/15 Service Plan.

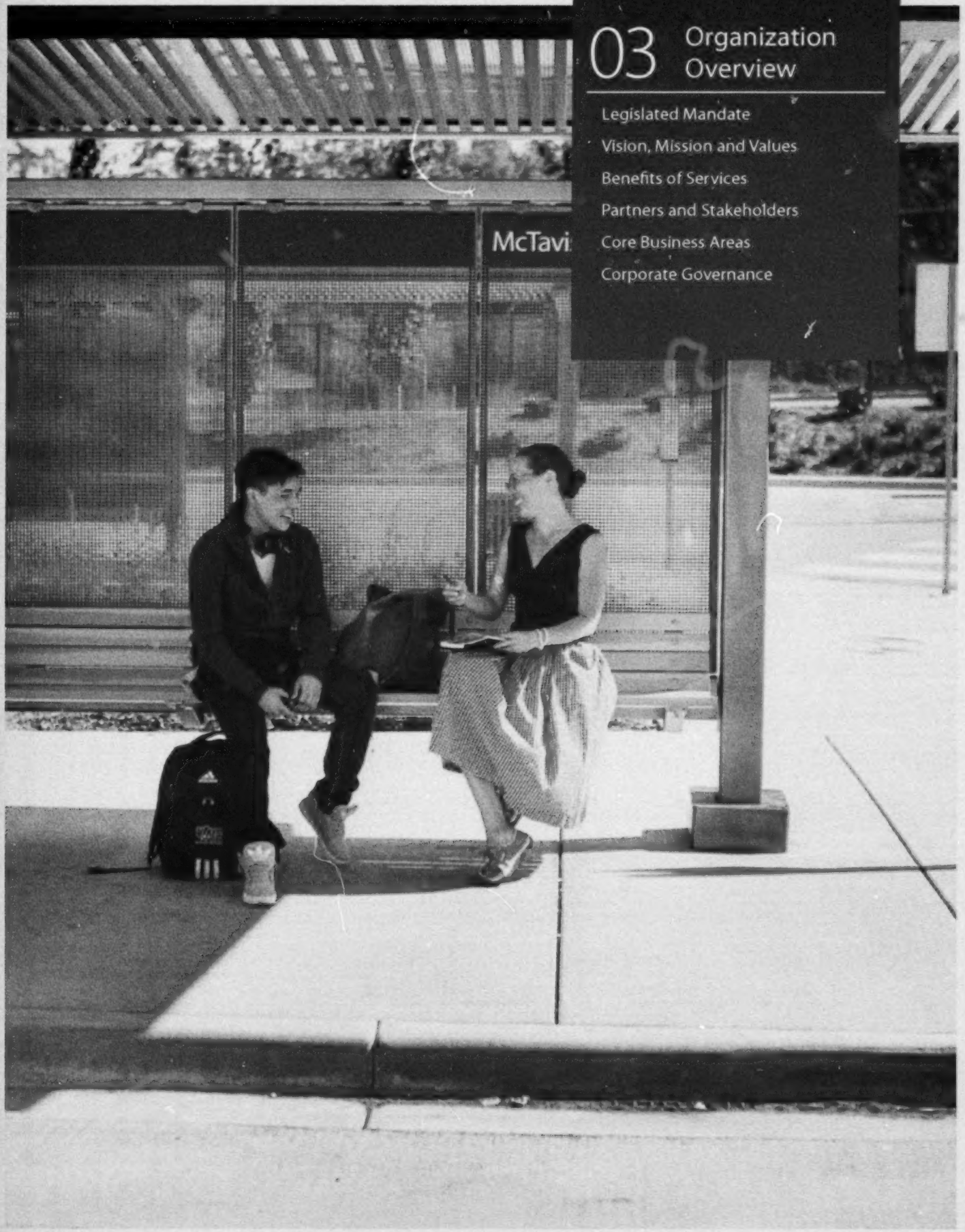
The Board is accountable for the contents of the report, including the selection of performance measures and how results have been reported. The measures presented are consistent with BC Transit's goals and objectives, and focus on aspects critical to the organization's performance.

This report contains estimates and interpretive information that represent the best judgment of management. The Board is responsible for ensuring internal controls are in place to ensure performance information is measured accurately and in a timely fashion.

All significant assumptions, policy decisions, events and identified risks, as of March 31, 2013 have been considered in preparing the report. Any changes in mandate, direction, goals, strategies, measures or targets made since the 2012/13 – 2014/15 Service Plan was released and any significant limitations in the reliability of data are identified in the report.

Kevin Mahoney
Chair

1 http://www.bcauditor.com/pubs/2003/special/performance-reporting-principles-british-columbia-bc



03 Organization Overview

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Organization Overview

Legislated Mandate

BC Transit is the provincial Crown agency charged with coordinating the delivery of public transportation across British Columbia with the exception of those areas serviced by TransLink (Metro Vancouver). More than 1.5 million British Columbians in over 130 communities across the province rely on BC Transit for local and regional transit services.

According to the *British Columbia Transit Act* (Section 3.1), BC Transit has a mandate to:

> "... plan, acquire, construct or cause to be constructed public passenger transportation systems and rail systems that support regional growth strategies, official community plans, and the economic development of transit service areas, to provide for the maintenance and operation of those systems, and with the approval of the minister, to pursue commercial opportunities and undertake or enter into commercial ventures in respect of those systems and the authority's assets and resources"

BC Transit's activities include planning, financial management, marketing, asset management, supply chain management, the provision of safety and human resources expertise and contracting for the operation of transit services. BC Transit also operates the Victoria Regional conventional transit system.

The funding of transit service is provided by customer fares and through a partnership of local governments and the Province through BC Transit.

BC Transit's corporate office is located in Victoria, British Columbia.

Vision, Mission and Values

VISION

To connect people and communities to a more sustainable future.

MISSION

Through the strength of our people and partners, we provide safe, effective and efficient customer-focused transportation solutions.

VALUES

Safety – We will ensure the safety of our employees, customers and transit systems.

Customer Service – We will work with our customers to meet their needs and exceed their expectations.

Sustainability – We will continuously improve and be accountable for our financial, environmental and social results.

Integrity – As stewards of public resources, we will use our assets prudently and conduct ourselves honestly and respectfully.

Innovation – We will pursue opportunities to enhance value for our customers.

Collaboration – We will cultivate strong partnerships, community connections and links to other types of travel.

Benefits of Services

BC Transit connects people, communities, and businesses across the province through cost-effective, sustainable public transit. These services contribute to government objectives and deliver public benefits in four key areas:

- Contributing to the economic, social and environmental sustainability of the province's communities through efficient and effective public transit.
- Increasing the mobility of the aging population and providing improved transit to support aging in place.
- Supporting rural and First Nations communities by linking them to regional services.
- Supporting the achievement of climate change initiative goals.

To deliver these benefits, the following five long-term objectives form the foundation of the BC Transit Strategic Plan and are used to guide business activities:

Develop Financial Sustainability – Ensure the long term viability of transit by systematically renewing and revising revenue sources, structures and internal processes.

Deliver Operational Excellence – Deliver safe, reliable, easy to use services that continuously improve through active public engagement.

Support and Shape Livable Communities – Encourage transit-supportive community planning and development to facilitate movements by walking, cycling and transit.

Change the Perception of Transit – Target transit messaging and advocacy to build public support and attract customers.

Strengthen our People and Partnerships – Create an adaptable, socially responsible organization that lives its values, develops its employees and partnerships, and attracts new people and opportunities.

These objectives frame the strategies and initiatives presented in BC Transit's provincial Service Plan and the performance measured in this Annual Report.

The scope of BC Transit's program as of March 31, 2013:

- Provides services to over 130 communities across B.C. in collaboration with 58 local government partners, including the Victoria Regional Transit Commission and regional hospital districts
- Contracts with 18 private management companies, 5 public operating organizations and 14 non-profit agencies
- Provided 49.6 million passenger trips in 2012/13
- Serves more than 1.5 million people in B.C.
- Operates 80 transit systems – conventional, community, custom and paratransit
- Owns a fleet of 1,030 conventional and double-deck buses and minibuses
- Total operating expenditures in 2012/13 of $266.4 million
- Total capital expenditures in 2012/13 of $47.6 million

Partners and Stakeholders

BC Transit works with its funding partners, the Province and local governments, to deliver transit services in communities throughout British Columbia. Stakeholders include customers, local governments, operating companies, First Nations communities, health authorities, post-secondary institutions, major employers, school districts, resident's associations, recreational facilities and others.

In the Capital Regional District, BC Transit operates the regional conventional transit system and contracts the service delivery of custom transit. The governance is set out in the *British Columbia Transit Act* and is overseen by the Victoria Regional Transit Commission (the "Commission"), a board of provincially-appointed local government representatives. The Commission makes decisions regarding service priorities, fares and local taxation for transit purposes.

In other parts of the province, BC Transit contracts service delivery to operators – including local government, not-for-profits, and independent businesses – based on operating agreements. Services are formalized through a Transit Service Agreement and two operating agreements which are approved by local governments and the operator: a Master Operating Agreement (MOA) and an Annual Operating Agreement (AOA). BC Transit oversees operations to make sure service delivery targets are achieved.

Sponsoring local governments provide a portion of funding for transit systems (less provincial funding and passenger fares), approve service levels and fare structures, maintain transit infrastructure such as bus stops, exchanges and shelters, and help promote ridership.

Operators are responsible for delivering services specified in local operating contracts, providing trained staff to meet operating standards for safety and quality, and managing labour relations.

Communities served by BC Transit are highlighted on the System Map, provided in Appendix A7 of this report.

Core Business Areas

BC Transit's core business is the delivery of public transit services. This includes:

Conventional transit which serves the general population in urban settings and offers scheduled bus service that operates on fixed routes. Vehicles are mobility aid accessible and range in size from small to double-deck buses to best match ridership and community needs. In 2012/13, conventional transit services managed by BC Transit provided 47.3 million passenger trips, down 3.0 per cent from the previous year.

Community transit which uses small to medium sized buses to deliver fixed routes in lower density or suburban markets to feed the mainline bus networks. Ridership for community transit is captured within the conventional transit statistics above.

Custom transit which employs vans, small buses and taxis to deliver dial-a-ride and door-to-door handyDART service for passengers with disabilities who cannot use conventional transit. Contracted taxi supplement and taxi saver (discounted coupon) programs offer additional flexible service to complement custom transit and adapt to customer needs. Custom transit provided 1.1 million passenger trips in 2012/13, up 1.5 per cent from last year.

Paratransit which serves small town, rural and First Nations communities as well as some suburban areas using small and medium sized buses and taxis for flexible routing and schedules. In 2012/13, paratransit provided 1.2 million passenger trips, up 2.2 per cent from last year.

To deliver these services, and based on the mandate and roles outlined in the *British Columbia Transit Act*, BC Transit's key business activities include:

Funding 48.0 per cent of transit system costs on a corporate-wide basis are funded by the Province, with cost-sharing for individual systems ranging from 31.7 per cent to 66.7 per cent based on provincial regulations.

Operating the Victoria Regional Transit system conventional service (providing over 23 million passenger trips a year).

Financial management to ensure the cost-effective use of provincial funding towards the delivery of public transit services.

Contract and risk management to ensure contract development, oversight, management of insurance, claims and legal activities.

Local government collaboration to ensure operational plans meet local needs, integrate services across municipal boundaries, and build collaboration on ways to improve transit service efficiency and effectiveness.

Operational planning and scheduling to ensure transit services can reliably meet the service levels set out in local service agreements at agreed-to funding levels.

Operational delivery and performance management to ensure transit services meet operational goals, provide a safe and convenient service to customers, and quickly resolve any service disruptions or other issues.

Transit system planning to integrate future transit services into community sustainability, meet social needs, and support community growth and development plans.

Corporate and capital planning to ensure that the transit fleet and supporting facilities infrastructure can meet existing needs, that planned growth is financially sustainable, and the organization is meeting its performance objectives.

Marketing, branding and community relations to build interest in public transit, increase ridership, and support provincial goals related to carbon reduction (greenhouse gas emissions).

Asset management to specify, test and acquire fixed assets (facilities and equipment) and transit vehicles, set maintenance standards and conduct asset inspections. Asset management employs strategies to ensure the most efficient and sustainable use of the company's assets.

Supply chain management to ensure the timely provision of fuel and inventory throughout the province on a cost-effective basis.

Safety, training and security to promote safety initiatives, standardize training and support policies to meet security and safety standards.

Professional services including environmental, human resources and procurement.

More information on BC Transit's shared services model can be found in Appendix A1.

Corporate Governance

Pursuant to the *British Columbia Transit Act*, as a provincial Crown Corporation, BC Transit and its Board of Directors are accountable to Government.

Government, as the representative of the public at large, is the sole shareholder of BC Transit. The Province establishes guiding principles for the governance of its Crown agencies and its annual Letter of Expectations: this records a joint understanding between Government and BC Transit over its mandate, public policy issues, strategic priorities and performance.

BOARD OF DIRECTORS

BC Transit is governed by a seven member Board appointed by the Province according to the requirements of the *British Columbia Transit Act* (the "*Act*") (Section 4.1). The *Act* requires four of the Board members to be local government elected representatives. The Board, through the Chair, reports to the Minister of Transportation and Infrastructure (designated as the Minister responsible for BC Transit).

The Board is governed according to the Province of B.C.'s *Best Practices Guidelines Governance and Disclosure Guidelines for Governing Boards of B.C. Public Sector Organizations ("Best Practices Guidelines")*. The Board also draws its governance principles from these Guidelines. BC Transit's full board governance disclosure is published and maintained on the BC Transit public website and includes all information required by the Board Resourcing and Development Office.[2]

2 http://www.bctransit.com/corporate/general_info/pdf/Good_Practices_Checklist-August_2012.pdf

The members of the Board are:

Mr. Kevin Mahoney, North Vancouver (Chair)

Councillor Susan Brice, District of Saanich

Mr. Kelly Cairns, Kelowna

Mr. Bob De Clark, Nanaimo

Mayor Mary Sjostrom, City of Quesnel

Mayor Peter Milobar, City of Kamloops

Mayor Carol Hamilton, City of Colwood

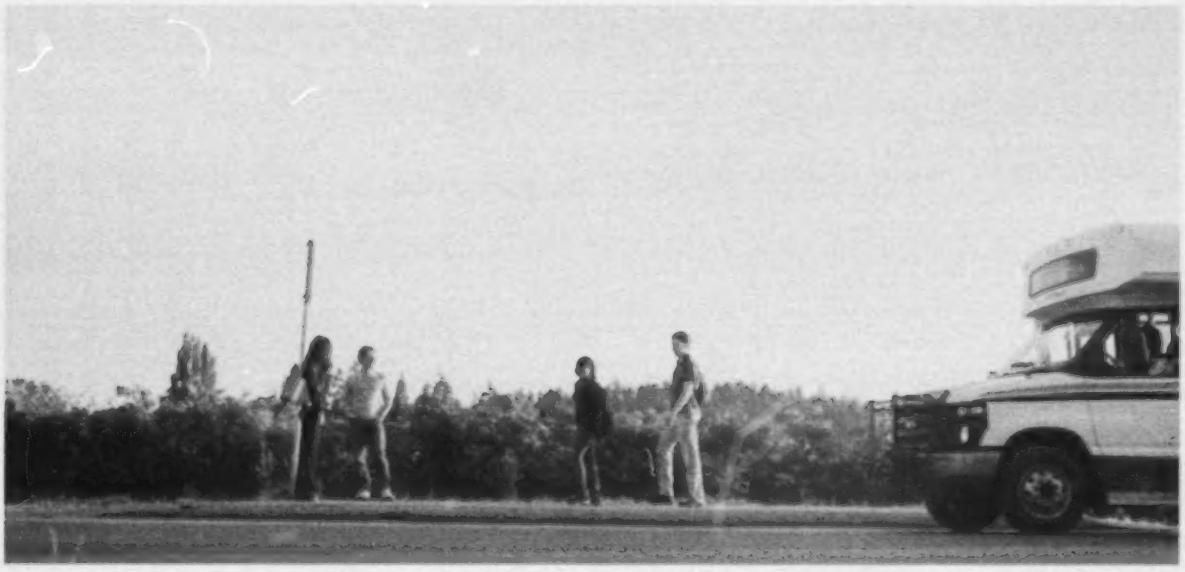
The role of the Board is to establish the long-term strategic direction of BC Transit. It is responsible for approving the three-year Service Plan and the annual business plan presented by management, allocating the provincial grant to achieve government expectations, approving operating and capital budgets and major capital projects, appointing the Chief Executive Officer, and monitoring the performance of management towards short-term and long-term business and strategic goals.

The Board has one standing committee: the Audit, Finance and Risk Management Committee. The purpose of this committee is to review and oversee financial reporting, internal controls, external audits, and risk management. The Committee is comprised of at least three Board members elected annually by the Board of Directors. Existing membership is:

Mr. Kelly Cairns, Committee Chair

Mr. Kevin Mahoney

Councillor Susan Brice



With respect to budget development, corporate budget submissions are approved by the Board and forwarded to the Minister responsible for review and presentation to Treasury Board. Once provincial funding is approved, local funding requirements are submitted for the endorsement of the appropriate local government partner. Provincial funding is provided through the public transportation sub-vote of the Ministry of Transportation and Infrastructure.

More information about BC Transit's corporate governance is available on the company website.[3]

SENIOR LEADERSHIP TEAM

Manuel Achadinha, President and CEO

Mike Davis, Vice President, Operations and COO

Michael Kohl, Vice President, Finance and CFO [4]

Brian Anderson, Vice President,
Business Development and CIO

Aaron Lamb, Executive Director, Asset Management

The senior leadership team takes an inclusive and hands on approach to aligning operational activities to achieve organizational goals and objectives.

In 2012/13, the team had a significant presence in communities across the province. Regional workshops were held across the province to discuss financial outlook, financial management, fleet management, service change implementation and the Provincial Independent Review Report findings.

3 http://www.bctransit.com/corporate/general_info/governance.cfm
4 Michael Kohl's last day with BC Transit was May 31, 2013.
On June 1, 2013, Brian Anderson assumed the role of Acting Vice President of Finance and Chief Financial Officer

09 The Year's Accomplishments

The Year's Accomplishments

2012/13 Performance Summary

- Made considerable strides implementing recommendations from the Independent Review, resulting in a 17.1 per cent year-over-year increase in our partnership satisfaction score, which is 23.2 per cent above target.
- Delivered a total of 49.6 million passenger trips.
- Conventional regional systems in Central Fraser Valley, the Cowichan Valley Commuter, Dawson Creek, Kamloops, Kitimat, Penticton, Squamish and Vernon experienced ridership growth in spite of prevailing economic conditions.
- Operating cost per passenger trip was 3.1 per cent below target while operating cost recovery was 7.6 per cent above target. This illustrates BC Transit's commitment to providing the most effective and efficient services possible.
- Celebrated long-term conventional service to communities across British Columbia, including 55 years in Powell River and 35 years in Kelowna, Kootenay Boundary – Trail and Prince Rupert. Also celebrated long-term para-transit service including 30 years in Alberni-Clayoquot, Central Fraser Valley – City of Abbotsford, Kaslo, Nelson, Penticton, Princeton, Quesnel and Summerland, 25 years in Cowichan Valley and 20 years in Boundary, Port Edward and Powell River.

In 2012/13, BC Transit continued to focus on improving the effectiveness and efficiency of the services provided in light of challenging economic conditions. Some of the past year's most notable performance results came from efforts focused on strengthening partnerships, increasing the efficiency of individual systems, connecting with customers, and delivering on environmental and social commitments.

Strengthening partnerships: As part of its commitment to continuous improvement, BC Transit participated in an independent review of its operations and performance, governance, communications and consultation, and funding relationship with local government partners. The report of the BC Transit Independent Review Panel entitled *"Modernizing the Partnership"* confirmed that BC Transit compares favourably to peer transit systems across the country, "particularly in terms of ridership, supply of service, and efficiency of service provided"[4].

5 http://www.th.gov.bc.ca/BC_Transit_Review/index.html

The report also identified areas where BC Transit could work more collaboratively with provincial and local government partners. Substantial process and communication enhancements have already been implemented to strengthen the partnership model. For example, significant input was sought on the configuration of new light duty bus platforms, the development of a new contracting strategy, an enhanced supply chain model, and the introduction of a compressed natural gas (CNG) fleet. Improvements in the areas of budgeting and forecasting, as well as performance monitoring have also been made.

The concerted effort undertaken by BC Transit over the last year is reflected in the annual Partnership Survey results. Local partner respondents overwhelmingly noted strong increases in the level of service and responsiveness received from BC Transit since 2011/12. These results reflect a strong commitment from employees to enhancing the relationship with partners, and BC Transit looks forward to further improvements in the future.

Improving efficiency and effectiveness: Over the last year, BC Transit undertook both short and long-term planning initiatives to ensure transit was structured to meet the needs of customers and local government partners in each community. Transit Future Plans, which align local land use plans and decision making with investments in transit services and infrastructure, were completed in Central Okanagan, Abbotsford-Mission, and Chilliwack, and work is underway on plans for Prince George, Nanaimo, North Okanagan, Sunshine Coast, Comox Valley and South Okanagan. In addition, Service Reviews and implementation plans were completed in 14 other communities to maximize ridership gains and improve efficiency.

BC Transit completed fare reviews in 38 systems to ensure fares were structured to attract and retain customers, while balancing user contributions and public funding. Revised fare structures are expected to increase annual revenue in at least 12 communities.

Capital projects, including a new exchange in downtown Vernon, and a new operations and maintenance facility in Kamloops, will enable these transit systems to operate efficiently and continue to meet growing customer demand. Progress continued on the expansion of RapidBus from Kelowna into West Kelowna, with infrastructure design underway in preparation for construction in 2013. BC Transit also took delivery of 71 new light duty buses as part of its replacement program.

BC Transit continues to leverage its assets to generate ancillary revenue to support transit and mitigate the burden on funding contributors. For instance, BC Transit is leveraging temporary excess capacity within its recently built Whistler transit facility to generate revenue through leasing parking and office space to third parties. The proceeds of commercial ventures offset funding contributions required from the province and local government partners.

Connecting with customers: The highly successful Transit Future Bus, BC Transit's mobile public consultation vehicle, visited Prince George, Nanaimo, North Okanagan and the Sunshine Coast, where feedback from almost 6,000 people was received. Public consultation is an essential component in the development of Transit Future Plans, Service Reviews and implementation plans.

Increased use of social media enabled BC Transit to provide its customers with service updates quickly and effectively, especially during the labour disruption in the Victoria region. Improvements at the Victoria integrated Transit Communications Center (T-Comm) also facilitated timely reporting on the company's website of operational issues affecting regular scheduled service.

BC Transit continues to strengthen its Marketing Resource Center in support of local marketing campaigns. In January, BC Transit introduced a new, high energy provincial marketing campaign aimed at winter sport enthusiasts. By partnering with Sherpas Cinema, BC Transit was able to repurpose an award winning ski film into an inexpensive ad for television. The ad, which was shot in the Kootenays, has enhanced the perception of transit.

Environmental and social commitment: BC Transit demonstrated its environmental, social, and financial accountability with the approval to purchase up to 50 heavy duty CNG buses for delivery starting in 2014. BC Transit has always been an industry leader with regards to its fleet technology, and approval to proceed with this latest acquisition solidifies its reputation as an innovator. The first 25 buses will be deployed in Nanaimo, and are expected to decrease the organization's reliance on volatile diesel fuel markets, while simultaneously producing fewer greenhouse gas emissions.

BC Transit's presence could be felt across the province over the last year as it participated in multiple community and social outreach campaigns. Amongst many others, this included supporting charity campaigns such as Stuff-the-Bus, Santa Sleigh Bus, Food-for-Fare, the Heart and Stroke Foundation's Big Bike and the Canadian Cancer Foundation's 75th anniversary Daffodil fundraiser, as well as events such as the media rodeo and Customer Appreciation Days, all of which raised community awareness of transit.

13 Performance Report

Goals, Strategies and Performance Measure Results

Performance Management Systems

Benchmarking

Progress on Government's Letter of Expectations

Performance Report

Goals, Strategies and Performance Measure Results

This performance report highlights BC Transit's results achieved for the fiscal year ending March 31, 2013. The five goals presented in this section are unchanged from the previous Annual Report and the 2012/13 - 2013/14 Service Plan. These goals were first published in *Shaping our Future*[5], the strategic plan developed in response to the *Provincial Transit Plan*[6]. Certain figures that are based on ridership statistics from previous years have been restated to conform with the current year's presentation and methodology.

In addition to the performance measures identified in the 2012/13 Service Plan, a new metric has been added to reflect BC Transit's focus on continuous improvement. The "level of perceived transit importance" metric was approved as part of the 2013/14 Revised Service Plan. This metric is expected to better reflect the perception of transit in a community and is less susceptible to large fluctuations due to year over year changes in service.

A discussion of Opportunities and Risk Factors and Organizational Capacity affecting these performance outcomes as well as financial outcomes is presented in the Management Discussion and Analysis section on page 35.

6 http://www.bctransit.com/2030/
7 http://www.th.gov.bc.ca/transit_plan/

BC Transit Performance Measurement Results 2012/13

Goal	Strategies	Measures	2010/11 Result	2011/12 Result	2012/13 Actual	2012/13 Target	2013/14 Service Plan Target *	2014/15 Service Plan Target *	2015/16 Service Plan Target *
Goal 1: Develop financial sustainability	Increase non fare and fare based revenue	Operating cost recovery	33.1%	33.3%	32.7%	30.4%	30.3%	29.2%	27.9%
	Cost efficiencies	Operating cost per passenger trip	$3.86	$4.00	$4.19	$4.32	$4.41	$4.58	$4.79
Goal 2: Support and shape livable communities	Integration	Passenger trips per capita	32.7	32.5	31.5	32.8	31.0	30.9	31.1
	Planning	Proportion of Transit Future Plans completed in major urban centres	New	29%	50%	70%	79%	93%	100%
Goal 3: Change the perception of transit	Promotion	Level of perceived transit service improvement	39%	33%	32%	35%	34%	35%	35%
	Awareness	Brand recognition	25%	26%	29%	28%	29%	30%	32%
	Support	Level of perceived transit importance (on a scale of 1 to 5)	New Measure		4.39	New Measure	4.45	4.50	4.55
Goal 4: Deliver operational excellence	Safety	Number of passenger injury incidents per million boardings	5.6	4.8	5.3	5.2	4.7	4.6	4.6
	Service	Passenger trips (000s)	50,982	51,041	49,599	51,849	52,360	52,917	53,758
	Effectiveness	Transit service hours (000s)	**2,154**	**2,170**	**2,156**	**2,251**	**2,248**	**2,285**	**2,329**
	Performance	Customer satisfaction (on a scale of 1 to 5)	**3.67**	**3.66**	**3.62**	**3.63**	**3.65**	**3.67**	**3.67**
Goal 5: Strengthen our people and partnerships	Accountability	Carbon intensity per service hour	28.83	28.64	28.30	28.72	28.68	28.63	28.63
	People	Employee engagement	N/A	54%	N/A	55%	56%	57%	60%
	Partnerships	Partner satisfaction (on a scale of 1 to 5)	2.94	3.22	3.77	3.06	3.12	3.18	3.25

These targets are consistent with the 2013/14 - 2015/16 Revised Service Plan

Goal 1 – Develop Financial Sustainability

Sustainable long-term revenue sources are fundamental to the ability of BC Transit to deliver on its mandate now and in the future. Since more than two thirds of total revenues come from provincial and local government sources, the viability of transit service is directly linked to financial support from these levels of government. Maintaining government funding support requires demonstrating the continuing public demand for transit services (as demonstrated through ridership) as well as the cost-effective use of public monies (as demonstrated through operating and administrative efficiency).

Strategies	BC Transit Actions in 2012/2013
Renew and revise fare-based revenue sources and systems to reflect changing ridership patterns and reduce fare evasion.	• Reviewed fares in 38 systems with revenue expected to increase in 12 of the systems. This is forecast to increase revenue by an estimated $700,000 per year.
Develop and take advantage of non fare-based revenue opportunities.	• Implemented a commercial revenue strategy in Whistler to leverage existing assets to generate ancillary revenue. • Successfully pursued additional funding sources such as the Build Canada Fund to finance capital projects. • Successfully responded to a public request for proposals issued by the Greater Victoria Harbour Authority (GVHA) to supply vehicles in support of their 2013 Cruise Shuttle Service. BC Transit will supply six buses from the provincial fleet that would otherwise be idle during the slower summer season. Revenue generated from the venture will support transit systems and offset provincial and local government funding requirements.
Improve cost control, communication and monitoring processes to mitigate cost volatility, maximize efficiencies and reduce costs.	• Executed the first phases of the Enterprise Investment Initiative to document, assess and determine the path to improvement for major business processes, including communications, monitoring and service planning. • Implemented a risk management program to mitigate the risk of fuel price volatility. The program includes entering into targeted fixed price supply agreements on a portion of fuel consumption to contain cost volatility, identifying other initiatives to realize cost savings to market (such as large volume bulk purchases to mitigate risk), and forming strategic partnerships. • Implemented a number of supply chain initiatives to improve efficiencies. • Developed a standby agreement for fixed price fuel supply contracts to mitigate the cost of expanding fuelling infrastructure and the risk of service disruption due to fuel supply shortage. • The Board of Directors approved the acquisition of up to 50 CNG heavy duty buses for delivery starting in 2014. This trial fleet is expected to lower BC Transit's risk related to diesel fuel price fluctuations. • Strengthened the Transit Operating Agreement starting with the Kamloops Request for Proposals to clarify roles and requirements, improve service management, performance monitoring and contract accountabilities. • Held discussions with local government partners and Ministry of Transportation and Infrastructure to design a strategy to implement and use reserves to protect against cost volatility.

Performance Measures and Results

Measures	2010/11 Result	2011/12 Result	2012/13 Result	2012/13 Corporate Target	2013/14 Service Plan Target	2014/15 Service Plan Target	2015/16 Service Plan Target
Operating cost recovery	33.1%	33.3%	32.7%	30.4%	30.3%	29.2%	27.9%
Operating cost per passenger trip	$3.86	$4.00	$4.19	$4.32	$4.41	$4.58	$4.79

Note: 2010/11 and 2011/12 operating cost per passenger trip results have been restated to conform with the current year's presentation and methodology. Operating cost recovery and operating cost per passenger trip calculations exclude debt, amortization of capital assets and interest.

Measure definition, importance and results

Operating cost recovery is measured by dividing operating revenue by annual operating cost. The ratio indicates the proportion of costs recovered from operating revenue. A higher cost recovery is desirable, as it reduces the subsidy from the taxpayer. Under the *British Columbia Transit Act*, local governments are responsible for establishing fares and making decisions with respect to trade-offs between fares and property taxes to fund transit service in their communities. These decisions impact the cost recovery ratio as they may reduce or increase operating revenues.

▶ Result: *Target met.* Operating cost recovery was 32.7 per cent, 7.6 per cent above the 2012/13 Service Plan target of 30.4 per cent. This was a result of lower than expected operating costs due to service reductions and higher than expected revenue per passenger from systems implementing revised fare structures. Exceptional performance in this measure was somewhat offset by inflationary operating costs including fuel, labour and parts.

Operating cost per passenger trip reflects annual operating cost divided by annual passenger trips. This ratio indicates how much it costs BC Transit to operate for each passenger trip provided. Increasing cost per passenger trip indicates that costs are growing faster than ridership.

▶ Result: *Target met.* Operating cost per passenger trip of $4.19 is 3.1 per cent less than the original 2012/13 Service Plan target of $4.32. The year-over-year increase is largely a result of the decrease in ridership paired with inflationary operating costs, including fuel, maintenance labour and parts.

Looking Ahead: Actions in Progress

BC Transit is working on a number of initiatives to continue to control costs, grow ridership and improve revenue yield. These include:

- Conducting efficiency reviews and implementing strategies to manage cost volatility, particularly in the areas of fuel and maintenance.
- Conducting fare reviews and monitoring the progress of prior year's implemented fare strategies.
- Developing vendor management guidelines that will assist local partners in expanding fare product offerings within their communities.
- Developing and maintaining the infrastructure to support the use of alternative, less expensive fuels.
- Planning for the introduction of 15 Vicinity buses which are expected to go into service in 2013/14.
- Expanding magnetic swipe card technology for U-PASS partners throughout the province.

Goal 2 – Support and Shape Livable Communities

BC Transit supports more livable communities, a goal of the *Provincial Transit Plan*, by encouraging transit-supportive community planning and investments to make it easier to get around by walking, cycling and transit. Greater integration between land use development and transit planning enables greener, more sustainable communities and improves the efficiency of transit services and related infrastructure.

Strategies	BC Transit Actions in 2012/13
Increase integration with other types of sustainable travel to enhance transportation options and make it easier for the public to access and use BC Transit services.	• Opened a new exchange in downtown Vernon that is integrated with the city's core services and Cenotaph Park. The exchange provides new shelters and accessibility improvements for customers who rely on wheelchairs and scooters.
Work with partners to influence land use development patterns that encourage walking and cycling, and increase the effectiveness of transit.	• Completed long term Transit Future Plans for Central Okanagan, Abbotsford-Mission and Chilliwack and continued work on the Prince George and Nanaimo Transit Future Plans. Initiated Transit Future Plans in North Okanagan, Sunshine Coast, South Okanagan and Comox Valley. These plans align local land use plans and decision making with investments in transit services and infrastructure. • Opened the new Kamloops Transit Center. Underutilized municipal land was developed to allow for not only the new transit center, but also a new public works yard and a recreational BMX site. • Began construction on the Rutland exchange in Kelowna. This exchange will link the Rutland community to the Highway 97 RapidBus services.
Identify and establish priority corridors to make transit more attractive and reliable and reduce the impact of congestion on transit services.	• Commenced detailed design and land acquisition for the next phases of the Kelowna RapidBus project in preparation for construction in 2013/14. Phases 2/3 will extend the RapidBus line to West Kelowna with the construction of new exchanges, RapidBus stations, stops, and information technology such as passenger information displays and transit signal priority. • Completed a transit priority corridor study in Victoria to identify opportunities to improve transit travel time on key corridors in the region.

Performance Measures and Results

Measures	2010/11 Result	2011/12 Result	2012/13 Result	2012/13 Corporate Target	2013/14 Service Plan Target	2014/15 Service Plan Target	2015/16 Service Plan Target
Passenger trips per capita	32.7	32.5	31.5	32.8	31.0	30.9	31.1
Proportion of Transit Future Plans completed in major urban centres	New	29%	50%	70%	79%	93%	100%

Note: 2010/11 and 2011/12 passenger trips per capita results have been restated to conform with the current year's presentation and methodology.

Measure definition, importance and results

Passenger trips per capita is derived by dividing annual passengers carried by service area population. This provides an indicator of market share (a target set out in the *Provincial Transit Plan*). It demonstrates the impact of efforts to make transit more accessible through integration with other forms of transportation as well as influence land use decisions that support greater transit use (such as densification). Increasing passenger trips per capita reflects the use of the transit system increasing at a rate faster than the population growth in the service area.

▶ Result: *Target not met.* Passenger trips per capita was 31.5, below the target of 32.8 set for this year in the 2012/13 Service Plan, and below last year's result of 32.5. This result indicates that the number of passenger trips has not increased as quickly as changes to the service area population. This is a result of service reductions in a number of regional communities as well as a labour disruption in the Victoria region, which alone resulted in a 2.7 per cent decrease in conventional service hours.

Proportion of Transit Future Plans completed in major urban centres measures the alignment of transit planning to local land use planning – including efforts to increase density and build more pedestrian and cycling paths – with investments in transit services and infrastructure. All major urban centers (over 25,000 population) will have a Transit Future Plan developed to create an alignment between local land use plans and decision making and investment in transit services and infrastructure.

▶ Result: *Target not met.* The proportion of Transit Future Plans completed in major urban centers in 2012/13 was 50 per cent, representing the successful completion of plans in Abbotsford - Mission, Central Okanagan, Chilliwack and Victoria. At the end of 2011/12, it was determined that conducting appropriate public consultation and ensuring alignment with local government partner community plans took more time than originally estimated. Because these factors are critical to the success of the Transit Future Plans, BC Transit updated the 2012/13 forecast to 50 per cent in the 2013/14 Revised Service Plan to reflect the additional time required to complete this work. Four Transit Future Plans are slated for completion in 2013/14, including plans for Prince George and Nanaimo which were worked on extensively in 2012/13.

Looking Ahead: Actions in Progress

BC Transit is working on a number of initiatives to further support and shape livable communities, including:

- Complete Transit Future Plans already underway in Nanaimo, Prince George, Sunshine Coast, South Okanagan, and continue to develop Transit Future Plans for North Okanagan and Comox Valley.
- Complete the transit priority corridor study in Victoria.
- Develop service implementation plans in Chilliwack and Abbotsford-Mission to move the first phases of the Transit Future Plans forward. The service plans identify efficiency opportunities and create the detailed packages of service improvements.
- In consultation with local partners, develop bicycle facility infrastructure guidelines for exchanges and park and rides that will link cycling corridors to transit services.

Goal 3 – Change the Perception of Transit

Implicit in goals 1 and 2 is the need for effective communication and marketing. To keep existing customers and attract new ones, BC Transit must market its services in competition with private automobiles and reach out to customers in new ways, such as through social media. To help build livable communities, BC Transit must connect with various community and stakeholder groups to build awareness and support for public transportation as an important part of creating sustainable, green communities.

Strategies	BC Transit Actions in 2012/13
Promote sustainable transportation and its role in making livable and sustainable communities.	• Added the Kamloops Regional Transit system to Google™ Transit. • Partnered with the Town of Ladysmith and the Cowichan Valley Regional District (CVRD) to announce the introduction of transit services in Ladysmith in the fall of 2013.
Build awareness of BC Transit's services and role as a transportation leader.	• Received the Canadian Urban Transportation Association (CUTA) national marketing award for the "Transit Hero" campaign. The campaign ran between March and May 2012 and encouraged transit customers to tell their story about the magic found in day-to-day transit experiences. • Partnered with Sherpas Cinema to repurpose an award winning ski film into an inexpensive transit ad for television.

Performance Measures and Results

Measures	2010/11 Result	2011/12 Result	2012/13 Result	2012/13 Corporate Target	2013/14 Service Plan Target	2014/15 Service Plan Target	2015/16 Service Plan Target
Level of perceived transit service improvement	39%	33%	32%	35%	34%	35%	35%
Brand recognition	25%	26%	29%	28%	29%	30%	32%
Level of perceived transit importance (on a scale of 1 to 5)	New Measure		4.39	New Measure	4.45	4.50	4.55

Measure definition, importance and results

Level of perceived transit service improvement is based on the per cent of customer tracking survey respondents who state that transit has improved over the past year. This provides an indicator of service quality (Goal 4) as well as the effectiveness of marketing and communication activities in making customers aware of new services and local transit initiatives.

▶ Result: *Target not met.* The level of perceived transit service improvement across the province was 32 per cent, below the 2012/13 – 2014/15 Service Plan target of 35 per cent and last year's result of 33 per cent. This is mainly due to service challenges resulting from a labour disruption in the Victoria Regional Transit System as well as fare increases and/or service cuts implemented by local governments in many regional systems. As soon as BC Transit was made aware of these expected changes in its partner communities, the 2012/13 forecast was updated to 32 per cent in the 2013/14 - 2015/16 Revised Service Plan to reflect these constraints and challenges.

BC Transit will ensure that marketing messaging highlights positive improvements, including service changes accomplished through reallocating service and improved passenger amenities like bus stop shelters and trip information.

Brand recognition is based on the per cent of customer tracking survey respondents who recognize BC Transit's role in the delivery of transit service in their local transit system. This tracks the effectiveness of marketing and communication programs at building awareness of BC Transit and its leadership role in providing sustainable transportation services to British Columbia, since this messaging is embedded in all branding activities.

▶ Result: *Target met.* The level of brand recognition was 29 per cent for 2012/13, above the forecast for this year of 28 per cent, and up from the previous year's result of 26 per cent. This reflects continued roll out of the BC Transit brand, increased resources for local marketing campaigns, as well as outreach activities such as Transit Future public consultations and the Transit Hero public engagement campaign.

Level of perceived transit importance measures the average rating of customer tracking survey respondents when asked to rate the importance of transit in their community from one ("not at all") to five ("very important"). This is a new measure included in the 2013/14 Revised Service Plan that tracks whether customers believe transit has a significant role in shaping sustainable and livable communities.

▶ Result: This is a new performance measure introduced to broaden performance reporting. The level of perceived transit importance was 4.39, representing strong support for transit in communities across the province. This result reflects the effectiveness of BC Transit's combined communication effort to build awareness and support for public transportation.

Looking Ahead: Actions in Progress

BC Transit is working on a number of initiatives to change the perception of transit, including:

- Continuing the roll out of Google™ Transit and transit priority projects.
- Considerable progress will be made on developing BC Transit's external website for the public, the extranet for our partners and the intranet for our employees.

Goal 4 – Deliver Operational Excellence

The BC Transit business model is based on developing and delivering safe, reliable, easy-to-use services that continuously improve through active engagement with employees, customers and partners. These services must continuously adapt and improve to meet the needs of customers, especially in the midst of continuing social, technological and community development change.

Strategies	BC Transit Actions in 2012/13
Ensure the safety of employees and customers.	• Developed and distributed training and instructor manuals for all partners to establish and maintain a standard of excellence in operator training. • Created a new full time disability management advisor position to oversee the BC Transit Return to Work program.
Monitor and address the service reliability and on-time performance of transit systems.	• Developed and implemented a process to monitor system reliability and customer comments for all regional conventional transit systems and began development of a similar process for custom and paratransit systems. • Launched T-Comm in the Victoria Regional Transit System to improve support for operations, monitoring of system reliability and coordination between front line, supervisory, dispatch, and security staff.
Ensure an effective public transportation system and improve customer service.	• Implemented over 40 service changes in more than 40 communities; targeted to increase the number of passengers carried per capita and per hour of service. • Completed Service Reviews and implementation plans in Whistler, Squamish, Penticton, Vernon, Nelson & Area, Port Alberni, Revelstoke, Creston, Terrace Regional, Skeena Regional, Prince Rupert, Port Edward, Kimberly and the Comox Valley handyDART system. • Initiated Service Reviews in Fort St. John, Quesnel and Cranbrook, as well as two feasibility studies in the Columbia Shuswap Regional District and the Agassiz-Seabird Island-Hope area. • Initiated a Custom Transit Registration pilot project to trial and implement custom transit registration best practices within the BC Transit context. • Invested in infrastructure needed to support effective service delivery and service expansion, in particular: » Construction on the Rutland exchange in Kelowna. » Opened a new operations and maintenance facility in Kamloops which has increased storage, maintenance and fueling capacity to manage additional buses as they are added to the fleet. This will allow BC Transit and the City of Kamloops to effectively respond to growing demand for expanded transit service in the region. » Conducted strategic facilities plans for the Victoria Regional Transit system and the Kelowna Regional Transit system, which will help guide investments pertaining to operations and maintenance requirements.

Strategies	BC Transit Actions in 2012/13
Enhance communication and engagement with customers.	• Established a three-day customer service request turnaround response time, reducing customer frustrations and consequently fewer customer complaints in the Victoria Regional Transit System. • Expanded the use of social media to connect with customers and provide more effective and timely service information. • BC Transit's mobile public consultation vehicle, the Transit Future Bus, visited the North Okanagan, Nanaimo, Prince George and the Sunshine Coast where feedback from almost 6,000 people was received.

Performance Measures and Results

Measures	2010/11 Result	2011/12 Result	2012/13 Result	2012/13 Corporate Target	2013/14 Service Plan Target	2014/15 Service Plan Target	2015/16 Service Plan Target
Number of passenger injury incidents per million boardings	5.6	4.8	5.3	5.2	4.7	4.6	4.6
Passenger trips (000s)	50,982	51,041	49,599	51,849	52,360	52,917	53,758
Transit service hours (000s)	2,154	2,170	2,156	2,251	2,248	2,285	2,329
Customer satisfaction (on a scale of 1 to 5)	3.67	3.66	3.62	3.63	3.65	3.67	3.67

Note: 2010/11 and 2011/12 passenger trip results have been restated to conform with the current year's presentation and methodology.

Measure definition, importance and results

Number of passenger injury incidents per million boardings measures passenger safety. Maintaining and improving safety is of primary importance in BC Transit. It is also fundamental to BC Transit's image and the ability to attract new users. A safe trip from start to finish is a fundamental commitment to both employees and customers.

▶ Result: *Target not met.* The number of passenger injury incidents for 2012/13 was 5.3 per million boardings, 1.9 per cent above the 2012/13 corporate target of 5.2 per million boardings. This is primarily due to improved reporting by drivers and a procedural shift to include reports on all slips, trips and falls. While this resulted in a higher passenger injury incident result for 2012/13, the additional information and improved accuracy in the reporting allows BC Transit to look for patterns and adjust training procedures to correct any contributing factors.

Passenger trips reports riders who have made a one-way trip using transit. It is the primary measure of provincial demand for transit services and demonstrates that fare levels and products, as well as service, continue to meet customer needs. It also tracks BC Transit's progress in meeting ridership targets set in the *Provincial Transit Plan*.

▶ Result: *Target not met.* The number of passenger trips in 2012/13 was 49.6 million, a 2.8 per cent decrease from last year's 51.0 million and 4.3 per cent below the 2012/13 Service Plan target of 51.8 million. While there was an increase in custom and paratransit passenger trips of 1.5 per cent and 2.2 per cent respectively, the overall decrease in ridership is attributable to service fare increases and service reductions in a number of conventional systems across the province, as well as a labour disruption in Victoria which impacted service reliability during the last half of the year.

Service hours measures the ability of BC Transit, operating partners and local government partners to provide responsive service across the province. Service hour levels are set by local government partners.

▶ Result: *Target not met.* BC Transit operated 2.16 million service hours across the province in 2012/13, down from the previous year's 2.17 million and below the 2012/13 Service Plan target of 2.25 million. Service hours were below target due to the service reductions in a number of communities after the Service Plan was released as well as a labour disruption in Victoria. BC Transit is continuing to address local funding constraints by working with local governments to develop strategies to contain transit costs and maximize existing service levels through service changes and develop new revenue streams such as leasing out excess facility capacity or vehicles to generate revenue.

Overall customer satisfaction measures the average rating of customer tracking survey respondents when asked to rate their overall transit experience from one ("very poor") to five ("excellent"). This measure tracks the effectiveness of BC Transit in meeting customer expectations.

▶ Result: *Target not met.* Customer satisfaction in 2012/13 was ranked as an average of 3.62 on a scale of 1 to 5, just slightly below the 2012/13 corporate target of 3.63 and last year's result of 3.66. While satisfaction increased in some communities, such as Kamloops, Whistler and Victoria, these gains were overshadowed by the results of communities that implemented large service cuts or fare increases such as Prince George, Kelowna and Nanaimo.

Looking Ahead: Actions in Progress

BC Transit is working on a number of initiatives to further deliver operational excellence, including:

- Establish a communication plan to share safety related best practices with partners and employees.
- Develop tools and expertise in new operator and refresher training to promote safe driving and reduce accidents.
- Complete ongoing Service Reviews in Fort St. John, Quesnel and Cranbrook and initiate Service Reviews in Abbotsford-Mission, Chilliwack, Powell River and Salt Spring Island.
- Complete feasibility studies currently underway in the Columbia Shuswap Regional District and the Agassiz-Seabird Island-Hope area; complete a feasibility report for Big White at the request of the Kootenay Boundary Regional District.
- Create and roll out a robust standard of excellence to enhance service reliability.
- Complete ongoing performance and contract compliance monitoring.
- Monitor T-Comm efficiency and look for ways to improve and add value to the customer service experience.
- Roll out Google™ Transit online trip planning as well as other website revisions to improve customer service and ease of use.
- Train Customer Relations Agents to respond to social media inquiries and to resolve transit related service issues while staying up to date with evolving customer communication trends.
- Issue a request for qualifications for the Custom Transit Registration pilot project and hold information sessions with key community stakeholders.
- Select and hire a mobility specialist to complete assessments, communicate with new handyDART registrants and launch the pilot project.
- Commence the consultation process related to the facilities master plans in Victoria and Kelowna.

Goal 5 – Strengthen our People and Partnerships

BC Transit's success depends on creating an adaptable, socially-responsible organization that lives its values, develops its existing employees and partnerships, and attracts new people and opportunities. This means actively working to improve how employees are attracted and developed, encouraging a culture of innovation and accountability, monitoring environmental, social and economic impacts, and strengthening relationships with local government and other partners.

Strategies	BC Transit Actions in 2012/13
Increase BC Transit's environmental, social and economic accountability.	• Continued deployment of the demonstration hydrogen fuel cell bus fleet in Whistler in 2012/13 avoided more than 1,490 tonnes of direct GHG emissions. • Completed environmental inspections at the Victoria Transit Centre, the Langford Transit Centre, and the Whistler, Kamloops and Vernon transit facilities. • Continued environmental investigations, including Stage 2 reports and water sampling for the Victoria and Langford transit facilities and Stage 2 processing in Kelowna. • Initiated remediation of a facility in Campbell River.
Become an adaptable workplace of choice.	• Finalized a corporate training and development program. • Implemented the first phase of the corporate performance management program to establish work goals through Individual Development Plans that are directly aligned to corporate objectives. • BC Transit and CAW Local 333 reached a collective agreement in January 2013 and an agreement with COPE was reached in April 2013. Negotiations with CUPE are ongoing. • Completed a review of exempt compensation.
Enhance existing partnerships and develop new ones.	• Participated in the BC Transit Independent Panel Review and began to implement recommendations stemming from the report "Modernizing the Partnership". • Continued the Enterprise Investment Initiative program in collaboration with BC Transit's local government and operating company partners. • Held the BC Transit annual workshop in Nanaimo to collaborate with partners, share information and strengthen relationships. • Undertook BC Transit's third annual partnership survey to measure transit partner perceptions of, and satisfaction with, BC Transit's services and responsiveness. • Worked with the Transportation Career Development Association (transCDA) to develop an enterprise apprentice program strategy. • Donated a retired bus to Vancouver Island University's Heavy Duty/Commercial Transport Mechanics program, which will assist in producing skilled individuals for the industry.

Performance Measures and Results

Measures	2010/11 Result	2011/12 Result	2012/13 Result	2012/13 Corporate Target	2013/14 Service Plan Target	2014/15 Service Plan Target	2015/16 Service Plan Target
Carbon intensity per service hour (in kg CO2e/hour)	28.83	28.64	28.30	28.72	28.68	28.63	28.63
Employee Engagement	N/A	54%	N/A	55%	56%	57%	60%
Partner satisfaction (on a scale of 1 to 5)	2.94	3.22	3.77	3.06	3.12	3.18	3.25

Measure definition, importance and results

Carbon intensity per service hour measures the ability of BC Transit to reduce its direct Greenhouse Gas Emissions (GHG) and supports the *Provincial Transit Plan* goal to reduce GHG emissions by 4.7 million tonnes by 2020. Carbon intensity is calculated using the Provincial Government's SMARTTool methodology and is measured by calculating the total emissions of BC Transit's fleet, facilities and paper usage in carbon dioxide equivalent tonnes.

- Result: *Target met.* In 2012/13, BC Transit's total emissions were 28.30 carbon dioxide equivalent kilograms per service hour (kg CO2e/hour), down from both the corporate forecast of 28.72 and last year's 28.64. This reduction was due to a number of different activities, in particular improved fuel efficiency through renewal of BC Transit's fleet and the continued impact of the Whistler demonstration hydrogen fuel cell bus fleet.

Employee engagement assesses what workplace experiences matter most to the employees and serves as a tool to develop actions that lead to changes in employment engagement. Engagement is assessed based on a model that uses structural equation modeling to understand what aspects of workplace influence the engagement characteristics.

- Result: *N/A.* BC Transit was unable to distribute the Employee Engagement Survey by year end due to union negotiations. The employee engagement score for 2011/12 was 54 per cent and the Human Resources Action Plan continues to address key issues identified in the 2011/12 Employee Engagement Survey results. The next Employee Engagement Survey is expected to be distributed in the Fall of 2013.

Partnership satisfaction measures the average rating of local government transit partner respondents when asked to rate their customer service received from BC Transit from one ("very poor") to five ("excellent"). This reflects efforts by BC Transit to improve service delivery as well as engage more extensively with partners in identifying and developing solutions to local transit needs.

- Result: *Target met.* On average, local government partners rated their overall satisfaction with the level of customer service provided by BC Transit as 3.77, a 17.1 per cent increase over last year's 3.22 rating, and 23.2 per cent higher than the target of 3.06. Improving partner relations was a major priority for BC Transit this year, which drove many of the initiatives highlighted above. This effort influenced the notable improvement to this measure.

Looking Ahead: Actions in Progress

BC Transit is working on a number of initiatives to further strengthen its people and partnerships, including:

- Hold discussions with trades institutions to establish transit related experience as part of the institutions' apprentice program curriculum, with the plan to launch a BC Transit apprentice cohort in 2013/14.
- Succession planning and providing training and tools to supervisors to manage employee performance and continue the transition to a high-performance culture.
- Roll out the second Employee Engagement Survey in the Fall of 2013.
- Launch the HR Action Plan in July 2013.
- Implement longer-term recommendations from the BC Transit Independent Review Panel.
- Continue to implement phases of the Enterprise Investment Initiative portfolio with local government and operating partners.

Performance Management Systems

The following outlines the sources of information used for the various measures reported in the Performance Measurement Framework.

Measure	Source
Goal 1: Develop financial sustainability	
Operating cost recovery	BC Transit financial system. Financial statements are audited by the Auditor General of British Columbia.
Operating cost per passenger trip	BC Transit financial system. Financial statements are audited by the Auditor General of British Columbia.
Goal 2: Support and shape livable communities	
Passenger trips per capita	Ridership information collected through internal tracking data. Population is based on the defined service area and uses Census Canada information updated by the latest BC Statistics data.
Transit Future Plans completed	Internal tracking data.
Goal 3: Change the perception of transit	
Level of perceived transit service improvement	Annual customer tracking survey, conducted by a third party research firm.
Brand recognition	Annual customer tracking survey, conducted by a third party research firm.
Level of perceived transit importance	Annual customer tracking survey, conducted by a third party research firm.
Goal 4: Deliver operational excellence	
Passenger trips	Internal tracking data.
Number of passenger injury incidents per million boardings	Internal tracking data.
Customer satisfaction	Annual customer tracking survey, conducted by a third party research firm.
Service hours	Internal tracking data.
Goal 5: Strengthen our people and partnerships	
Carbon intensity per service hour	SMARTTool data and internal tracking data.
Employee engagement	BC Stats (BC Transit employee survey).
Partnership satisfaction	CivicInfoBC Transit Survey.

The integrity and reliability of BC Transit's performance monitoring data are assured through a number of processes:

- Financial operating and capital actual expenditures are reviewed monthly, quarterly and annually by internal finance and source department staff and also reviewed as part of BC Transit's annual financial statement audit by the Auditor General of British Columbia.
- Revenue and ridership statistics are reviewed monthly, quarterly and annually by internal staff, with ridership statistics reconciled against passenger revenue data to validate accuracy. Revenue results are also reviewed as part of BC Transit's annual financial statement audit by the Auditor General of British Columbia.
- Service Hours, Number of Passenger Injury Incidents and base data used to calculate Carbon Intensity are supplied monthly by contracted and internal operations staff and reviewed monthly, quarterly and annually by internal BC Transit staff. BC Transit self certifies its Greenhouse Gas emissions following Public Service Organization Self-Certification Emissions Check List and this is subject to periodic audit by the Province.

- Transit Future Plan statistics are collected and maintained by internal staff with trends compared by community and annually to review anomalies and validate accuracy.
- All remaining statistics collected by third parties—such as those from Stats Canada, BC Stats, CivicInfoBC and third party research firms—are reviewed annually by BC Transit staff in order to analyze trends and investigate apparent anomalies.

Benchmarking

BC Transit benchmarks its performance against transit statistics collected and published by the Canadian Urban Transit Association (CUTA). The selected performance ratios gauge and compare overall service effectiveness and efficiency and are the statistics most universally used by the North American transit industry to track achievement of strategic goals.

To ensure that transit system comparisons are most relevant and accurate, BC Transit divides its systems for benchmarking based on population size and service type. The divisions and statistics used for each are as follows:

Conventional Transit Service – Victoria Regional Transit System performance is compared with CUTA urban transit systems of a similar size. In the case of Regional Transit Systems outside Greater Victoria, service in the six largest systems is averaged and compared with systems of a similar size in CUTA. Measures used include:

- Passenger trips per capita
- Passenger trips per hour
- Operating cost per hour
- Operating cost per passenger trip

Custom Transit Service – Victoria Regional Transit System custom service performance is compared with CUTA specialized transit systems of a similar size. In the case of Regional Transit Systems, custom transit performance in the eight largest systems is averaged to compare with similarly-sized CUTA specialized transit systems. Measures used include:

- Operating cost per van hour
- Van passengers per hour

In the case of custom transit statistics, "van" is used to denote those hours of service and passengers carried by custom transit vehicles only. For reasons of comparative consistency it therefore excludes the passengers that BC Transit carries through other means, such as through partnerships with taxi companies and regional transportation providers.

Appendix A3 provides the detailed benchmarking results for these measures.

Progress on Government's Letter of Expectations

The Minister of Transportation and Infrastructure, to whom BC Transit reports, outlines performance expectations in support of customer needs and government priorities through an annual Government's Letter of Expectations. The terms of the agreement are reviewed and updated annually. The entire 2012/13 agreement can be viewed on the BC Transit website[8].

The key requirements identified for BC Transit for the fiscal year 2012/13 and actions taken are outlined in the following table.

Specific Direction to the Corporation	BC Transit Actions in 2012/13
Align actions and activities to be consistent with the intent of the *Provincial Transit Plan*, subject to fiscal funding allocations.	BC Transit undertook planning work and service changes in more than 40 communities throughout the province to improve ridership and the overall effectiveness and efficiency of transit. Completed long term Transit Future Plans for Central Okanagan, Abbotsford-Mission and Chilliwack and continued work on the Prince George and Nanaimo Transit Future Plans. Initiated Transit Future Plans in North Okanagan, Sunshine Coast and Comox Valley. The Office of the Auditor General conducted a performance audit and concluded that while ridership has grown over the past few years, it has fallen short of the targets set in the *Provincial Transit Plan*. In response, BC Transit has had discussions with the Ministry to determine whether adjustments should be made to the *Provincial Transit Plan* targets or the means BC Transit has to achieve said targets.
Work with the Ministry to both implement government's strategic transit policy priorities and to review the transit model to refine and improve delivery within budget.	BC Transit participated in an Independent Review that was commissioned by the Minister of Transportation and Infrastructure. The review made 18 recommendations designed to improve the governance model, decision making processes, and accountability between BC Transit and its partners. BC Transit has already implemented many of the recommendations, and is continuing to work collaboratively with its partners to address the longer term suggestions.
Work with the Ministry to develop performance measures and targets that align with, and aid in the achievement of, the goals and strategies documented in the Corporation's 2012/13 Service Plan.	BC Transit has worked extensively with the Ministry and its local government partners to develop performance targets that reflect prevailing local economic conditions. BC Transit has taken considerable steps to address the performance monitoring recommendations identified in the Independent Review. The refreshed performance reporting methodology will be used to effectively monitor system effectiveness and assist in meeting the corporate performance goals.
Ensure that financial targets will be achieved consistent with financial targets reported in *Budget 2012*.	BC Transit's operating expenditures did not exceed annual revenues for 2012/13. Total operating expenditures were below budget by $26.1 million due to reduced service hours and operational efficiencies.

8 *http://www.bctransit.com/corporate/general_info/pdf/201213_Governments_Letter_of_Expectations.pdf*

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Non-GAAP Financial Measures

Forward Looking Statements

Corporate Performance

Performance Summary

Non-GAAP Financial Measures

Throughout this performance summary and management's discussion and analysis, BC Transit uses the terms "ridership", "passenger trips per capita", "service hours", "passenger trips", "net debt service costs" and "FTEs". These terms do not have any standardized meaning as prescribed by Canadian generally accepted accounting principles (GAAP) and, therefore, may not be comparable with the calculation of similar measures presented by others.

The terms used are considered to be industry-wide standard indicators and performance measures used throughout the North American transit industry and are used to measure the achievement of BC Transit's strategic goals. Data reliability is obtained as follows: ridership information is collected using an industry-standard reporting protocol and common definitions. (The same information is used by Statistics Canada for its Standard Industrial Classification reports). Estimates are derived using statistically valid sampling measures from sources of data which include comparisons between revenue, farebox passenger counts and automated passenger counts. Per capita estimates use population figures from the most recently published census, adjusted annually by B.C. Statistics and collated for the respective Transit Service Areas by BC Transit. Service hours delivered in the Regional Transit Systems are calculated based on billings and operating statements, which are verified by audits. Service hours delivered in Victoria are based on actual platform hours. Actual financial results are derived from BC Transit's audited financial statements which are prepared in accordance with the basis of accounting disclosed in the audited consolidated financial statements.

See Appendix A5 for further definitions.

Forward Looking Statements

This performance summary and management's discussion and analysis contain certain "forward looking statements." These statements relate to future events or future performance and reflect management's expectations regarding growth, results of operations, performance, business prospects and opportunities and industry performance and trends. They reflect management's internal projections, expectations or beliefs and are based on information currently available to management.

Some of the market conditions and factors that have been considered in formulating the assumptions upon which forward looking statements are based include ridership, the Canadian Dollar relative to U.S. Dollar, fuel costs, fleet maintenance costs, labour costs and availability, transit system request for proposal costs, insurance costs, taxation, facilities and environmental compliance and the provincial and local economies in which BC Transit operates. In some cases, forward looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements.

In evaluating these statements, readers should specifically consider various factors including, but not limited to, the risks and uncertainties associated with funding risk, ridership risk, currency risk, commodity risk, asset risk, safety and security, environmental risk, regulatory risk, labour disruption risk, and risk of default under material contracts.

Actual results may differ materially from any forward looking statement. Although management believes that the forward looking statements contained in this discussion and analysis are based upon reasonable assumptions, readers cannot be assured that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this management's discussion and analysis, and BC Transit assumes no obligation to update or revise them to reflect new events or circumstances.

Corporate Performance

The following table summarizes operating costs, revenue, service hours and passenger trips for all BC Transit programs (Regional Transit Systems and Victoria Regional Transit System combined) for the 2012/13 fiscal year, compared to corporate targets. Separate program level results for the Victoria Region and the Regional Systems program are provided in Appendices A2 and A3.

Summary *(Figures in thousands)*	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 Corporate Target	2013/14 Service Plan Target	2014/15 Service Plan Target	2015/16 Service Plan Target
Operating cost	$196,684	$204,036	$207,655	$223,971	$230,967	$242,188	$257,326
Passenger and advertising revenue	$65,127	$67,847	$67,944	$68,091	$69,877	$70,625	$71,793
Service hours (000s)	2,154	2,170	2,156	2,251	2,248	2,285	2,329
Passenger trips (000s)	50,982	51,041	49,599	51,849	52,360	52,917	53,758

Note: 2010/11 and 2011/12 passenger trip results have been restated to conform with the current year's presentation and methodology.

For the purpose of presenting corporate performance and industry benchmarking, operating cost includes cost of operations, maintenance and administration but excludes interest and amortization consistent with industry practice.

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Management Discussion and Analysis

Dated May 30, 2013

The following is management's discussion and analysis of the consolidated financial position and results of operations for BC Transit as of May 30, 2013. This should be read in conjunction with our audited consolidated financial statements and related notes for the years ended March 31, 2013 (fiscal 2013) and March 31, 2012 (fiscal 2012)[9]. Except where indicated, all financial information herein is expressed in thousands and Canadian dollars.

Management Discussion and Analysis Financial Report [10]	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 Target	2012/13 $ Variance (Un)Favourable	2012/13 % Variance (Un)Favourable
(Figures in thousands, except FTE's)	($)	($)	($)	($)	($)	($)	($)	(%)
Revenue								
Passenger & advertising revenue	59,632	60,679	65,127	67,847	67,944	68,091	(147)	(0.2%)
Investment and other income	2,859	4,205	3,404	2,947	4,152	3,093	1,059	34.2%
Provincial contributions	71,874	79,105	83,971	88,065	89,013	96,639	(7,626)	(7.9%)
Amortization of deferred capital contributions on capital assets	9,743	14,024	30,151	27,183	28,805	35,762	(6,957)	(19.5%)
Contributions from municipalities	53,847	60,840	66,793	75,483	76,312	88,999	(12,687)	(14.3%)
Total Revenues	197,955	218,853	249,446	261,525	266,226	292,584	(26,358)	(9.0%)
Expenditures								
Operations	114,437	124,025	137,102	142,652	144,661	157,594	12,933	8.2%
Maintenance	36,237	37,772	38,125	39,375	41,259	44,134	2,875	6.5%
Administration	18,752	20,040	21,457	22,009	21,735	22,243	508	2.3%
Debt Service and amortization of assets	28,253	36,177	55,797	58,120	58,784	68,613	9,829	14.3%
Total Expenditures	197,679	218,014	252,481	262,156	266,439	292,584	26,145	8.9%
Net Income (Loss) From Operations	276	839	(3,035)	(631)	(213)	-	(213)	-
Non-Operating Items:								
Vancouver assets – amortization expense	(32,654)	(32,654)	(32,654)	(32,654)	(14,769)	(32,654)	(17,885)	54.8%
Vancouver assets – amortization of deferred capital contributions	31,242	31,242	31,242	31,242	14,340	31,242	16,902	54.1%
Gain (loss) on disposal of assets	(329)	-	242	11	(370)	-	370	-
Foreign exchange and investments	(1,073)	273	375	620	578	-	(578)	-
Net Profit from Olympic and Paralympic Games	-	18	-	-	-	-	-	-
Annual (Deficit) Income	(2,538)	(282)	(3,830)	(1,412)	(434)	(1,412)	978	(69.3%)
Capital expenditures								
Vehicle	63,933	122,823	12,394	10,474	29,871	53,443	22,572	43.0%
Non-Vehicle	5,041	28,094	26,846	27,687	17,760	37,930	20,170	53.2%
	68,974	150,917	39,240	38,161	47,631	90,373	42,742	47.3%
FTEs (as at year end)	760	825	846	846	852	876	24	2.7%
Service hours 000's	2,011	2,086	2,154	2,170	2,156	2,251	(95)	(4.2%)
Passenger trips 000's	47,576	48,781	50,981	51,041	49,599	51,849	(2,250)	(4.3%)

9 http://bctransit.com/corporate/general_info/annual_reports.cfm

10 Certain comparative figures have been restated to conform with the current year's presentation and methodology.

The information provided in the previous table is consistent with how it has been presented in previous years and may be different from the information presented in the audited financial statements due to the separate disclosure of debt service. Under the Canadian public sector accounting principles, costs are allocated by function (operations, maintenance and administration). The format of the information presented above is consistent with industry practice and allows for historical and industry benchmarking.

Note that the annual deficit reported of $0.4 million (2011/12 - $1.4 million) is a result of incremental amortization expenses of $0.4 million related to the Vancouver assets, which is in excess of the related grant amortization. This difference reverses through Accumulated Operating Surplus until the end of the assets' useful life. In 2012/13 BC Transit extended the life of the Vancouver assets to 75 -100 years from the acquisition date (2011/12 – 40 years) as a result of an independent assessment of the useful life of the infrastructure.

Financial Overview

As identified in the Financial Report on page 36, total revenues were higher year-over-year by $4.7 million or 1.8 per cent due to increased operating contributions from the Province, deferred capital grant amortization, local contributions, advertising revenue, and investment income. Total revenues were lower than target by $26.4 million or 9.0 per cent given the reduction in the number of service hours delivered across the province. Despite reduced service hours, passenger and advertising revenue remained relatively flat due to fare increases and service optimization.

Total expenditures were well-contained, increasing by $4.3 million or 1.6 per cent year-over-year due to inflationary cost pressures. BC Transit continued to control costs through its shared services model, which achieves greater operational, capital and financial efficiencies through economies of scale. This, in combination with reduced service hours, resulted in expenditures being $26.1 million, or 8.9 per cent, lower than budget.

	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 Budget/ Target
	($)	($)	($)	($)	($)	($)
Financial Indicators						
Passenger & advertising revenue	59,632	60,679	65,127	67,847	67,944	68,091
Operating Expenditures	169,426	181,837	196,684	204,036	207,655	223,971
Capital Expenditures	69,888	150,917	36,012	36,439	47,631	90,373
Capital Assets	224,480	336,183	323,999	311,935	304,496	326,877
Capital Assets Under Lease	778,699	746,045	713,391	680,737	672,676	648,083
Net Debt	91,975	137,076	154,872	176,466	155,277	173,082
Operating Indicators						
Service Hours	2,011	2,086	2,154	2,170	2,156	2,251
Year over Year Change (%)		4%	3%	1%	(1%)	4%
Passenger Trips	47,576	48,781	50,982	51,041	49,599	51,849
Year over Year Change (%)		3%	5%	0%	(3%)	2%
Operating Cost Per Passenger Trip	$3.56	$3.73	$3.86	$4.00	$4.19	$4.32
Year over Year Change (%)		5%	3%	4%	5%	8%
Operating Cost Per Service Hour	$84.24	$87.15	$91.31	$94.03	$96.31	$99.50
Year over Year Change (%)		3%	5%	3%	2%	6%
Passenger Trips Per Capita	31.1	31.6	32.7	32.5	31.5	32.8
Year over Year Change (%)		1%	4%	(1%)	(3%)	1%
Operating Cost Recovery	35.2%	33.4%	33.1%	33.3%	32.7%	30.4%
Year over Year Change (%)		(5%)	(1%)	0%	(2%)	(9%)

Ridership and Service Hours

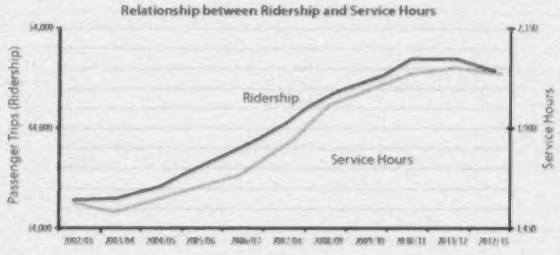
Changes in ridership are strongly correlated with changes in service hours but are also impacted by other factors including service frequency and reliability, fare changes, investments in public transit (transit exchanges, park & rides and technology) and general economic conditions such as employment, demographic, fuel prices and population changes. The relationship between ridership and service hours is illustrated in the following chart.

Demand for transit remains high and several communities were able to expand service hours, including Campbell River, Central Fraser Valley, Nanaimo, Chilliwack, Cowichan Valley, Fort St John, Kamloops, Sunshine Coast, Revelstoke, Vernon and Williams Lake. These service expansions by and large led to increases in system ridership in Central Fraser Valley, the Cowichan Valley Commuter, Kamloops and Vernon. Ridership growth also occurred in Dawson Creek, Kitimat, Penticton and Squamish, as well as in 28 custom and paratransit systems.

Despite these gains, a slow economic recovery has resulted in competing municipal priorities and less capacity to fund new or expanded transit services. Total net service hours delivered in Victoria and in the Regional Transit Systems decreased year-over-year by 13,700 hours or 0.6 per cent. Labour disruption in the Victoria region also impacted the ability to deliver consistent service levels, and resulted in a reduction of 21,900 or 2.7 per cent of service hours. In the Regional Transit Systems, several communities implemented service efficiency changes or reduced services, resulting in a net reduction of 12,000 hours. Cancelled transit services in Kicking Horse Country and Sea to Sky also accounted for a reduction of 4,000 hours.

Given the challenging economic circumstances total system ridership across the province was lower than target by 4.3 per cent and decreased year-over-year by 2.8 per cent. Victoria ridership decreased by 4.9 per cent year-over-year due to service disruptions, while Regional Transit Systems declined by 0.8 per cent. Over the last year, BC Transit focused considerable efforts on short and long-term planning initiatives to ensure transit is structured to meet the needs of customers and local government partners in each community. Transit Future Plans, which align local land use plans and decision making with investments in transit services and infrastructure, were completed in Central Okanagan, Abbotsford-Mission, and Chilliwack, and work is underway on plans for Prince George, Nanaimo, North Okanagan, Sunshine Coast, Comox Valley and South Okanagan. Service reviews, which aim to optimize immediate and short term opportunities to improve system ridership and efficiency were completed or in progress in Victoria, Whistler, Squamish, Penticton, Vernon, Nelson & Area, Port Alberni, Revelstoke, Creston, Terrace Regional, Skeena Regional, Prince Rupert, Port Edward, Kimberly, Fort St. John and the Comox Valley. In addition, over 40 service changes in more than 40 communities were implemented to meet community objectives, to meet changing demand for transit services. These service changes will also strengthen the foundation of the transit network to accommodate future growth.

Relationship between Ridership and Service Hours

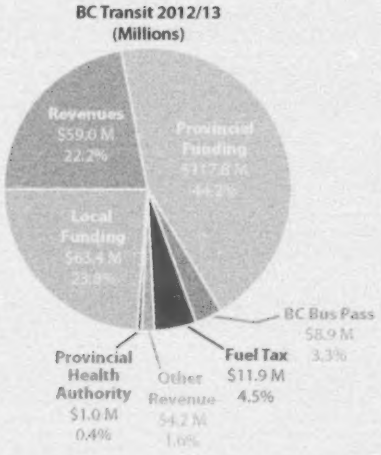


Revenues

Transit service is funded through three main sources: Provincial contributions, Local government contributions and Passenger fares / advertising. Provincial contributions for the most recent year accounted for 47.9 per cent of total funding; Local government contributions from property taxation accounted for 23.8 per cent and the remaining 28.3 per cent was generated through passenger fares, advertising, investments and fuel tax. A summary of the 2012/13 total revenue composition is provided below.

Provincial operating contributions per capita are the highest level of funding commitment in Canada and are based on legislated cost share formulae for both operating and capital expenditures. The Province remains committed towards public transit, as demonstrated by the continued increase in contributions during an extended time of economic uncertainty and challenge. Provincial contributions will continue to increase throughout the 2013/14 – 2015/16 Service Plan period.

The individual revenue components are analyzed further below.



	2011/12 Actual	2012/13 Actual	2012/13 Target/ Budget	Year over Year Variance	Year over Year Variance	Variance to Budget/Target	Variance to Budget/Target
	($)	($)	($)	($)	(%)	($)	(%)
Passenger and Advertising Revenue*	67,847	67,944	68,091	97	0.1%	(147)	(0.2%)
Investment and Other Income	2,947	4,152	3,093	1,205	40.9%	1,059	34.2%
Provincial Contributions:							
Provincial Operating Contributions	88,065	89,013	96,639	948	1.1%	(7,626)	(7.9%)
Amortization of Deferred Capital Contributions (Provincial and Federal)	27,183	28,805	35,762	1,622	6.0%	(6,957)	(19.5%)
Fuel Tax	11,764	11,911	11,500	147	1.2%	411	3.6%
Contributions from Local Government**	63,719	64,401	77,499	682	1.1%	(13,098)	(16.9%)
Total	**261,525**	**266,226**	**292,584**	**4,701**	**1.8%**	**(26,358)**	**(9.0%)**

** Includes BC Bus Pass Funds*
*** Includes Provincial Health Authority Funds*

Passenger and advertising revenues

Results for 2012/13 were 0.2 per cent or $0.15 million lower than budget.

Despite reduced service levels and lower ridership, passenger revenues were down by only 0.3 per cent over the prior year. The biggest factor that mitigated passenger revenue loss was the implementation of fare structure changes in 11 major conventional system communities that comprise 77 per cent of total passenger revenue. As a result, average fares increased corporately from $1.31 per ride to $1.35 per ride (includes conventional and custom). Fare reviews were conducted in a total of 38 transit systems across the province. Advertising revenue increased by 40.5 per cent or $0.34 million year-over-year.

Government Funding

Contributions from the Province

The Provincial operating contribution has grown by 53.1 per cent since 2007/08. This operating contribution is also budgeted at $101.8 million for 2013/14, representing a 14.4 per cent increase from 2012/13 actual contributions.

In 2012/13, BC Transit recovered 47.9 per cent of its total expenditures from the Province of British Columbia through grants, BC Bus Pass funding and Health Authority funding. The Province is the largest funding contributor with the remaining 22.2 per cent recovered from passenger revenues, 23.8 per cent from local funding partners, 4.5 per cent from fuel tax, and 1.6 per cent from investment and other income.

Local Taxation

Funding from local taxation sources comprise 23.8 per cent of total revenues contributed. Local taxation revenues increased year-over-year by $0.7 million or 1.1 per cent. The year-over-year increase from local governments can be attributed to operating cost increases and capital investments. The local government share of transit expenditures is based on cost sharing formulae and is funded by the combination of passenger revenue and local taxation as the residual funding source. Local taxation revenue sources were less than budget by $13.1 million or 16.9 per cent as a result of lower operating and capital expenditures from decreased service hours.

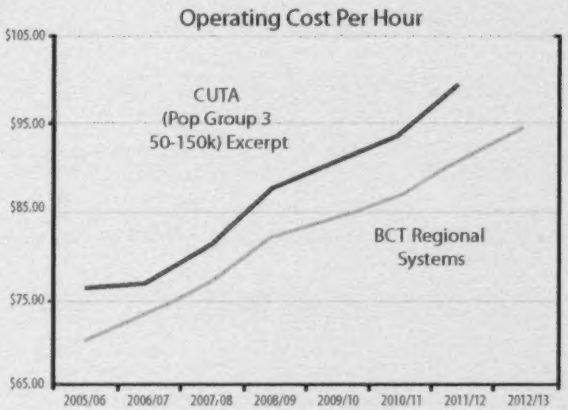
Operating Costs

Operating costs are defined as the sum of all costs associated with the operation, maintenance and administration of transit, excluding depreciation and interest paid on loans for capital expenditures.

Total operating expenses were less than budget by $16.3 million or 7.3 per cent (year-over-year increased by $3.6 million or 1.8 per cent).

Cost efficiency, as measured on a cost per hour basis, was favourable to target by 3.2 per cent and increased year-over-year by 2.4 per cent. Industry cost pressures, as reflected by operating costs per hour, have trended at 4 to 6 per cent per annum[11]; accordingly, the current year's results of 2.4 per cent are well above expectations and reflect management's continued focus to contain costs and cost efficiency. Industry cost pressures are reflected in the trend in operating cost per hour.

	2011/12	2012/2013			
(Figures in thousands)	Actual	Actual	Budget/ Target	Variance to Budget/Target	
	($)	($)	($)	($)	(%)
Operations	142,652	144,661	157,594	12,933	8.2%
Maintenance	39,375	41,259	44,134	2,875	6.5%
Administration	22,009	21,735	22,243	508	2.3%
Total	**204,036**	**207,655**	**223,971**	**16,316**	**7.3%**
Operating Cost Per Hour	94.03	96.31	99.50	3.19	3.2%
Operating Cost Per Passenger Trip	4.00	4.19	4.32	0.13	3.0%



Operating cost per passenger trip was 3.0 per cent less than target (4.8 per cent increase year-over-year). This reflects the decrease in passenger trips mainly from disrupted service in the Victoria Regional Transit System which caused operating cost per passenger trip to increase year-over-year.

The specific components of total operating costs are analyzed in the following pages.

11 CUTA 2011/12 Results population groups 2 & 3

Operations Costs

Operations costs include the costs required to put buses on the road and include operator wages and benefits, fuel, insurance, uniforms, depot and other costs directly attributable to operations. Operations costs were $12.9 million or 8.2 per cent lower than budget and $2.0 million (1.4 per cent) greater than 2011/12. Due to an overall reduction in service hours combined with management's continued focus on cost containment and efficiency, operations costs were lower than budget and measured well compared to the prior year. On a cost per hour basis, actual costs of operations were also lower than target by 4.2 per cent and increased by 2.1 per cent year-over-year.

	2011/12	2012/13			
Operations	Actual	Actual	Budget/ Target	Variance to Budget/Target	
	($)	($)	($)	($)	(%)
Operations (excl. fuel)	114,236	116,269	126,437	10,168	8.0%
Fuel	28,416	28,392	31,157	2,765	8.9%
Total Operations	**142,652**	**144,661**	**157,594**	**12,933**	**8.2%**
Operations Cost/Hour	**65.74**	**67.10**	**70.01**	**2.91**	**4.2%**

Fuel

The price of fuel was budgeted at $1.26 per litre for the year ended March 31, 2013 resulting in a total budget of $31.2 million. Actual amount spent on fuel was $28.4 million, which is $2.8 million or 8.9 per cent below target. This favourable variance can be attributed to a combination of lower service hours (which resulted in reduced fuel consumption), and a lower average fuel rack price throughout the year of $1.17 per litre.

A summary of world oil prices as measured in West Texas Intermediate (USD/bbl) against gasoline rack pricing (BC average) for the last 18 months is presented in the table below. Diesel pricing varies throughout the province due to transportation differentials; however, is strongly correlated with WTI and gasoline price movements and accordingly; the graph is indicative of diesel volatility.

Fuel pricing remained volatile throughout 2012/13 with the average diesel price realized by BC Transit ranging from $1.053 per litre to $1.295 per litre. Pricing volatility and upward pressure continues to be driven from economic uncertainties and geopolitical risks.

	2011/12	2012/13			
	Actual	Actual	Target	Variance to Budget/Target	
	($)	($)	($)	($)	(%)
Fuel volume (000s litres)	24,497	24,267	24,728	461	1.9%
Fuel price per litre	1.16	1.17	1.26	0.09	7.1%
Total fuel cost	**28,416**	**28,392**	**31,157**	**(2,765)**	**(8.9%)**

Management mitigates fuel price volatility and price increases through two primary methods. Firstly, by aggregating BC Transit's provincial fuel volumes under a successful fuel procurement process, BC Transit receives an annual average volume discount from posted rack rates for volume purchases. Management also has a commodity price risk management program whereby it locks-in fixed price physical contracts.

Given volatility of pricing, management continuously monitored opportunities to lock into fixed price arrangements and was able to enter into fixed price physical delivery agreements. As a result, 39 per cent of total fuel volume was fixed at an average price of $1.199 per litre, allowing for $0.6 million in savings from budget. Management continues to explore other strategies to manage the cost pressure and volatility associated with fuel prices including strategic partnerships, developing reserves, alternative technologies and financial hedging.

As at the date of this report, approximately 42.4 per cent of total estimated fuel consumption for 2013/14 is now under fixed price agreements at a blended price of $1.21 per litre. This is $0.09 per litre under the 2013/14 fuel pricing budget. This achieves both budget savings and stability for provincial and local funding partners.

18 Month Average Retail Price Chart

Maintenance

Maintenance	2011/12 Actual	2012/13 Actual	2012/13 Target	Variance to Budget/Target	
	($)	($)	($)	($)	(%)
Fleet Maintenance	32,122	33,053	35,132	2,079	5.9%
Facilities Maintenance	7,253	8,206	9,002	796	8.8%
Total Maintenance	39,375	41,259	44,134	2,875	6.5%
Fleet Maintenance Cost/Hour	14.80	15.33	15.61	0.28	1.8%
Facility Maintenance Cost/Hour	3.34	3.81	4.00	0.19	4.8%

Fleet Maintenance

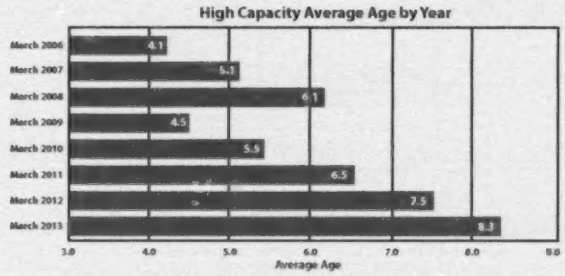
Total fleet maintenance was favourable to budget by $2.1 million or 5.9 per cent (an increase from 2011/12 of $0.9 million or 2.9 per cent). The favourable variance from budget is primarily attributable to lower than anticipated expansion, as well as cost savings within the Regional Systems. Increased fleet inspections, implementation of the major capital maintenance program, preventative maintenance, and warranty recoveries all contributed to this result.

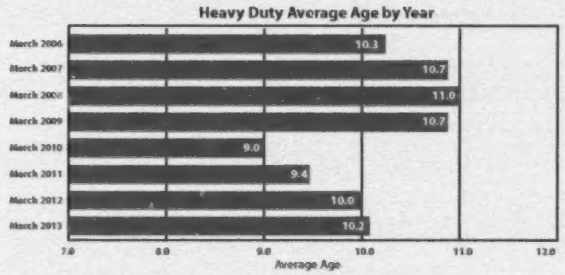
Fleet maintenance expenditures are a function of expansion, inflationary costs, fleet age and fleet diversity. On a cost per hour basis, fleet maintenance was below target by $0.28/hour, or 1.8 per cent, and increased year-over-year by $0.53/hour or 3.6 per cent. The year-over-year increase is attributed primarily to inflationary pressures on materials.

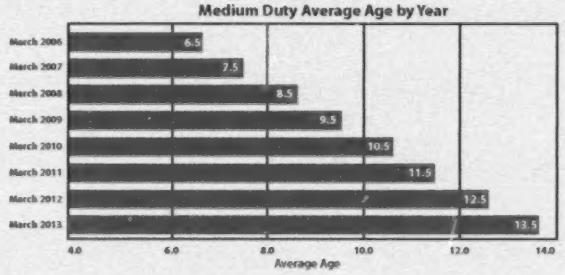
Maintenance costs for running repairs, major component overhauls and mid-life tune-ups are largely a function of the age of the fleet, increasing costs of parts, labour and outside service providers, and the technological complexity of newer vehicles (including increasingly stringent environmental standards). Maintenance costs are also impacted by the Canadian dollar, higher shipping costs, diminishing options in the supply chain network, and base metal costs. Most parts originate from American or European suppliers.

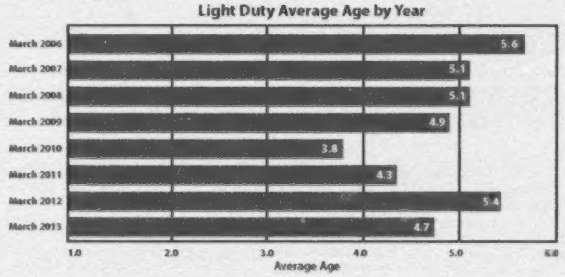
BC Transit's fleet replacement and expansion capital plan will in part mitigate some of these cost pressures in future years.

At March 31, 2013, BC Transit had 1,030 buses in service, comprised of high capacity buses (69), heavy duty buses (578), medium duty buses (55) and light duty buses (328). The charts below summarize the average age of the buses comprising the provincial fleet. High capacity and heavy duty buses have an amortized life of 13 – 20 years, medium duty buses are amortized over ten years, and light duty buses have a life of five years.





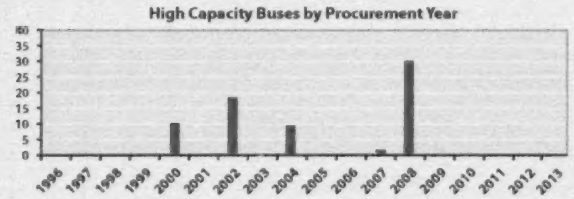


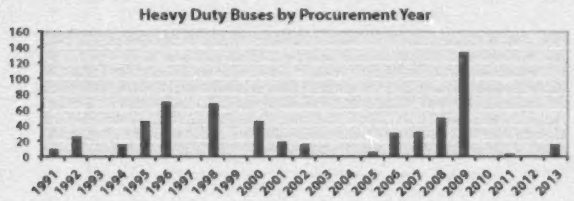


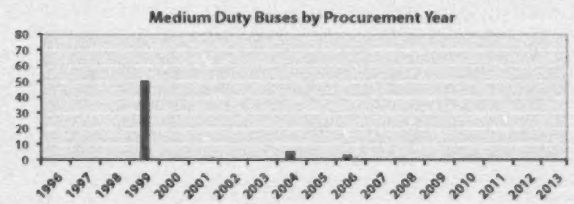
Maintenance costs for older fleets increase significantly as they near the end of their useful life, particularly those in which significant maintenance has been deferred. However, depending on the costs of major capital investment, life cycle analysis can indicate it is still economic to maintain these vehicles rather than replace them outright and incur significant write-offs, in addition to accelerated fleet replacement debt service charges. Additionally, the increasing complexity of the transit fleet to improve environmental performance and passenger comfort continues to contribute to higher parts costs and resource demands.

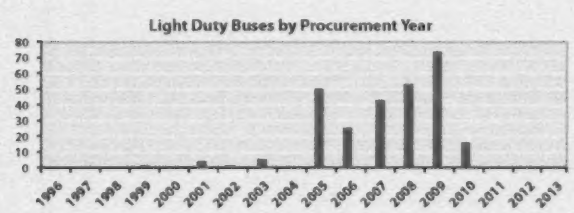
Conventional buses with a 20 year useful life require significant refurbishment and major capital maintenance, particularly at mid-life, in order to meet their full economic life. For heavy duty buses purchased in 2009 or later, a 13 year useful life has been adopted which is consistent with industry standard. This will mitigate the number of mid-life upgrades required on the fleet in the future.

To better manage and maintain the fleet, management has developed a Long Range Maintenance Plan (LRMP). The LRMP includes analysis of the existing and planned future fleet, maintenance requirements, capacity and labour constraints and funding requirements. Future fleet maintenance will be conducted under the LRMP to ensure the most efficient and effective use of assets. It is a maintenance program that is proactive rather than reactive in nature. Asset componentization continues to be management's approach to managing vehicle assets as component-based capitalization and amortization more accurately reflects asset capitalization principles and the useful life of the LRMP expenditures.









Facilities Maintenance

Facilities maintenance costs were lower than budget by $0.8 million or 8.8 per cent (an increase from 2011/12 of $0.95 million or 13.1 per cent). Many of BC Transit's facilities are near the end of their useful lives and require increasing repair and modifications to meet the physical requirements of expanding service levels. In addition, a number of facilities are at or operating beyond capacity which is a driver for maintenance costs and future facilities expansion. Increased growth and expansion of the fleet will put additional pressure on existing facilities.

Strategic planning initiatives are underway to deal with the capacity issues. BC Transit is preparing a Facilities Master Plan for Victoria which identifies projected growth requirements and provides options for maximizing the capacity and efficiency of existing locations. A Facilities Master Plan for the Kelowna region was also completed. As consultation with local partners occurs, the capital plan will be updated to reflect individual construction projects identified within the Master Plans.

In addition, a newly constructed operations and maintenance facility in Kamloops was officially opened in July 2012. This facility is expected to accommodate the growth of the system for the next 25 years.

Location	Land	Building	Construction Date	Estimated Remaining Capacity*
Victoria Custom	owned	owned	1987	(43%)
Central Fraser Valley	leased	leased	2000	(22%)
Kelowna	leased	owned	1999	(14%)
Victoria Garage	owned	owned	1952	(13%)
Langford	leased	owned	1998	(2%)
Dawson Creek	leased	leased	2002	0%
Fort St. John	leased	leased	1979	0%
Victoria Administration	owned	owned	1989	0%
Campbell River	leased	leased	1990	5%
Trail	leased	leased	1981	15%
Whistler	leased	owned	2009	35%
Kamloops	owned	owned	2012	40%
Vernon	owned	owned	2011	50%

** Estimated facility capacity is based on bus parking, maintenance bays, office and fueling capacity.*

Administration

Administrative costs include supporting shared services for all transit systems. BC Transit provides a wide range of management services that benefit all of the Regional Transit Systems in the province. The shared services model:

- Pools expertise and capacity in areas such as planning and financial monitoring;
- Provides an opportunity to lower costs through bulk purchases of supplies and assets, such as fuel and vehicles;
- Provides a framework to oversee and invest in transit on a provincial scale;
- Provides efficiencies in contract management for public transit operators, and;
- Manages the distribution of provincial government funding.

BC Transit provides shared services in a number of functional areas: planning and operations; scheduling; finance, human resources, safety/training/security; marketing and media relations; fleet and facility engineering and services; information technology; environment; procurement; management of the capital program and governance. A summary of these services is included in Appendix A1. Total administration expenses were $0.5 million or 2.3 per cent favourable to budget ($0.3 million or 1.2 per cent lower than 2011/12).

All employees within the Victoria Regional Transit System and BC Transit shared services have been within the "net zero" provincial mandate over the last three fiscal years (two years for union employees and four years for exempt staff). Additionally, in 2011/12, BC Transit completed an internal review that resulted in a 9 per cent reduction in exempt staff. This is reflected in the reduction of overall administration costs from 2011/12 to 2012/13.

Administration	2011/12	2012/13			
	Actual	Actual	Target	Variance to Budget/Target	
	($)	($)	($)	($)	(%)
Administration	22,009	21,735	22,243	508	2.3%
Administrative Cost/Hour	10.14	10.08	9.88	(0.20)	(2.0%)

Administrative costs face on-going pressures, many of which include increased support and demands from provincial and local funding partners and customers. Other cost drivers are regulatory including compliance with increasing environmental, procurement, accounting and legal standards. Regardless of these cost pressures, BC Transit's cost efficiency benchmarks well below national averages primarily due to the shared services business model which achieves significant economies of scale[12]. BC Transit will continue to leverage the strength of the shared services model and achieve greater operational, capital and financial efficiencies as it continues to experience significant demand for both public transit and shared services expertise.

Debt Service

Net debt service costs represent those capital program costs recoverable from local partners and are summarized in the table. Vancouver assets are not included as they are funded by a capital grant from the Province. The lower than budgeted net debt service cost is primarily attributable to lower than anticipated service expansion and later than anticipated in-service dates relating to bus replacements and other capital projects.

Non-operating Items

Investment and other income of $4.2 million (2011/12 - $2.9 million) is higher than target by $1.1 million. This balance consists of interest earned on bank deposits, short term deposits and debt sinking funds and other special purpose funding. The variance from target is due to lower than expected rate of return on the sinking fund investments and returns on surplus funds invested in the year.

Loss on disposal of capital assets $0.4 million (2011/12 - $(11 gain)) relates to buses completing their service life and being decommissioned in the year. Furthermore, gain on foreign exchange and investments of $0.6 million (2012 - $0.6 million) consists of gains from the revaluation of foreign currency balances and actual gains on investment dispositions in the year.

12 11/12 CUTA Results; Admin Costs/Service Hour Victoria = $10.83 & Population Group 2 = $13.11

Debt Service

Description	2011/12 Actual	2012/13 Budget	2012/13 Actual	Variance to Budget
	($)	($)	($)	($)
Amortization of Capital Assets	47,218	60,200	47,739	12,461
Long Term Debt Interest	10,902	8,413	11,045	(2,632)
Debt Service Cost	58,120	68,613	58,784	9,829
Amortization of Deferred Capital Contributions	27,184	35,762	28,805	6,957
Sinking Fund Interest *	2,283	3,093	2,529	472
Net Debt Service Cost	28,653	29,758	27,450	2,400

** A component of Investment and Other Income*

Balance Sheet

BC Transit operates on a cost recovery basis. Consequently, transit operations do not generate changes in the corporate balance sheet other than working capital shifts caused by the timing and realization of expenditures as well as the impact of the capital expenditure program.

The capital program and its related financing is the major balance sheet driver. Capital grants from federal and provincial funding partners are accounted for as deferred contributions and amortized on the same basis as the related asset. The local share of expenditures is financed by fiscal agency loans arranged through the Debt Management Branch of the Ministry of Finance. Debt service costs are recovered from local government partners.

As at March 31, 2013	2011/12	2012/13	Variance $	% Change	Explanation of Change
	($)	($)	($)	(%)	
Financial assets:					
Cash and cash equivalents	87,898	69,878	(18,020)	(21%)	Refer to Consolidated Statements of Cash Flows
Accounts Receivable:					
Provincial and federal capital grants	2,033	1,056	(977)	(48%)	Decrease relates to timing of capital project activity and receipt of capital grants
Local government	13,317	12,905	(412)	(3%)	Decrease related to activity and timing of year-end billings from local governments
Trade and other	7,091	7,585	494	7%	Increase in warranty and month bus pass accruals
Debt sinking funds	64,199	85,429	21,230	33%	Increase relates to sinking fund installments of $17.2 million, $1.3 million market-to-market gains and $2.6 million investment income
Liabilities:					
Accounts payable and accrued liabilities	28,370	31,955	3,585	13%	Increase relates to timing of capital payables and accruals at year-end
Provincial funding payable	10,331	5,162	(5,169)	(50%)	Decrease relates to timing of grants and related expenditures
Deferred contributions	7,347	6,822	(525)	(7%)	Consistent with comparative year
Deferred capital contributions	821,561	807,748	(13,813)	(2%)	Amortization of deferred capital contributions net of new grants
Debt	240,665	240,706	41	0%	Amortization of debt discount
Employee future benefits	13,448	14,963	1,515	11%	Increase in long-term disability benefits and non-pension post retirement benefits
Non-financial assets:					
Tangible capital assets	311,935	304,496	(7,439)	(2%)	Refer to note 8 of Consolidated Financial Statements
Tangible capital assets under lease	680,737	672,676	(8,061)	(1%)	Refer to note 9 of Consolidated Financial Statements
Inventories	8,166	8,335	169	2%	Consistent with comparative year
Prepaid expenses	1,944	1,268	(676)	(35%)	Decrease relates to timing of insurance payment
Prepaid lease payments	3,473	3,996	523	15%	Increase relates to timing of Nanaimo facility prepaid lease

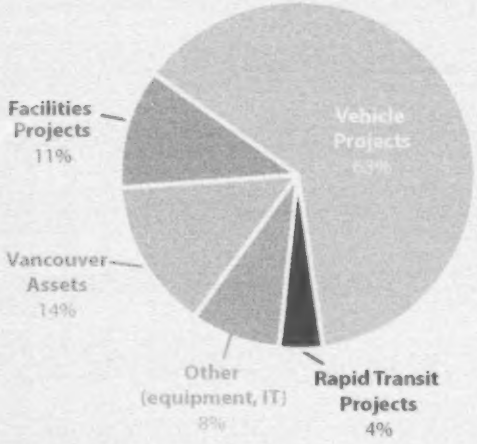
Capital Expenditures

In 2012/13, BC Transit successfully implemented several projects that contributed to the ongoing growth of transit systems across the province, service reliability, and a high standard of customer service and amenities. The 2012/13 capital program focused on rolling stock, a shift from the 2011/12 capital program which focused on fixed assets.

Significant expenditures in 2012/13 included:

	($)
Facilities Projects	5,096
Vehicle Projects	29,871
Rapid Transit Projects	2,043
Other (farebox, equipment, IT)	3,863
Vancouver Assets	6,758
Total Capital Expenditures	**47,631**

2012/13 Capital Expenditures



Vehicle projects represented the majority of capital spending in 2012/13, comprising 63 per cent of total expenditures. In 2012/13, BC Transit purchased three high capacity buses, 12 heavy duty buses, and 71 light duty buses as part of its replacement program. In addition, a significant number of mid-life upgrades and vehicle refits were completed to maximize useful lives.

The majority of facility expenditures relate to the construction of the Kamloops operations and maintenance facility, which officially opened in July 2012. Significant planning work and land acquisition occurred as part of the Kelowna RapidBus project, and the organization upgraded core information technology equipment as part of its Enterprise Investment Initiative.

The three year capital plan as presented in the 2013/14 Revised Service Plan is summarized below:

BC Transit Capital Plan
Revised June 2013

(figures in thousands)	2013/14	2014/15	2015/16	Total
	($)	($)	($)	($)
Province – Capital Grants	43,152	43,175	27,148	113,475
Municipalities – Fiscal Agency Loans	32,750	45,412	38,953	117,115
Other	11,321	8,857	133	20,311
Subtotal BCT Managed Capital Plan	**87,223**	**97,444**	**66,234**	**250,901**
Vancouver Assets	22,201	32,081	38,340	92,622
Total Capital Plan	**109,424**	**129,525**	**104,574**	**343,523**

The 2013/14 Capital Plan aligns with the 2013/14 – 2015/16 Revised Service Plan. The 2013/14 Capital Plan includes projects that are directly managed by BC Transit ("BC Transit Managed Capital Plan") and expenditures related to Vancouver Assets that will be managed by TransLink but capitalized by BC Transit, at the request of the Province.

The BC Transit Managed Capital Plan includes forecast expenditures of $118.8 million in 2013/14. While these expenditures are significantly higher than 2012/13 spending, the 2013/14 Capital Plan still balances the need to upgrade, replace or expand ageing infrastructure with local affordability concerns. The plan focuses on the replacement of core assets required to maintain or modestly grow the existing transit system for the next five years. Of the $118.8 million forecast expenditures in 2013/14, 63 per cent is associated with projects that are already approved or underway, such as Kelowna RapidBus Phases 2 and 3. Replacement is identified as the primary driver for 63 per cent of proposed spending over the next five years, and 73 per cent of spending is associated with vehicle replacement or expansion projects.

Hydrogen Fuel Cell Demonstration Project

In preparation for the 2010 Olympic and Paralympic Winter Games, BC Transit successfully delivered the world's largest demonstration fleet of hydrogen buses operating in a single location on behalf of the Province of British Columbia. The demonstration project included the acquisition and delivery of the fleet and its supporting infrastructure, as well as the operation and evaluation of fleet performance within the environmentally challenging conditions of Whistler and the surrounding area.

The hydrogen fuel cell fleet supports the:

- Hydrogen Highway;
- Clean Transportation Technology Initiative;
- BC Climate Action Plan; and
- The *Provincial Transit Plan*.

Since the delivery of the first bus in 2009, the zero-emission fleet has logged over three million kilometres of service and has contributed to the Province's plan to reduce greenhouse gas emissions by 33 per cent by 2020.

The total budget of the demonstration project is $89.5 million, covering capital and operating costs to March 2014. The funding partners are:

- Government of Canada ($45 million through the 2006 Public Transit Capital Trust Fund)
- Government of British Columbia ($26.7 million)
- Resort Municipality of Whistler ($16.8 million)
- Canadian Hydrogen Fuel Cell Association ($1 million)

The hydrogen fuel cell demonstration project is scheduled to complete in March 2014.

Liquidity and Capital Resources

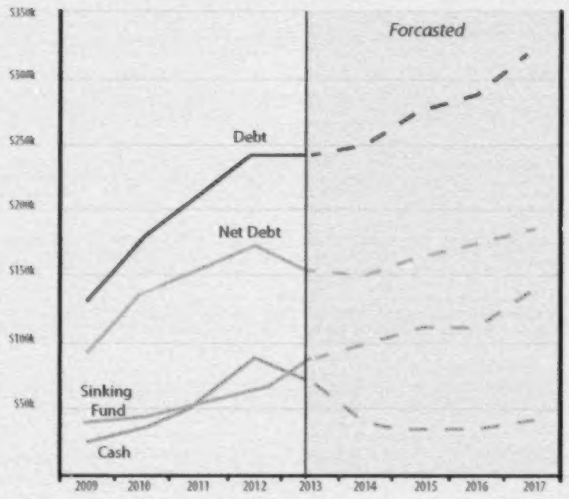
BC Transit continued to have strong cash flow and is well capitalized between working capital, provincial capital grants and net debt allowing the company to proceed with its capital plan.

Working Capital Changes

Cash and cash equivalents decreased year-over-year by $18 million due primarily to acquisition of tangible capital assets in accordance with BC Transit's capital plan and disbursements for sinking fund installments. Accounts receivable decreased year-over-year by $0.9 million and is primarily related to timing of billing and collection from local funding partners. Accounts payable and accrued liabilities increased year-over-year by $3.6 million primarily due to capital expenditure accruals.

Total debt outstanding as at March 31, 2013 is $240.7 million (March 31, 2012 - $240.7 million). Under the *British Columbia Transit Act*, BC Transit is subject to a $500 million borrowing limit. The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request. Debt is comprised of sinking fund bonds with a weighted average interest rate of 4.6 per cent, maturing at various dates to 2040 and amortized from five to 30 years.

The following chart shows how BC Transit's debt and cash has grown over the last five years and how it is projected to change over the next three years in accordance with BC Transit's capital plan.



Accumulated Surplus

As at March 31, 2013, accumulated surplus was $52.1 million (2012 - $52.6 million). The decrease in the accumulated surplus is related to the 2012/13 annual deficit incurred in the consolidated statements of operations.

Critical Accounting Estimates

The preparation of BC Transit's financial statements requires management to adopt accounting policies that involve the use of significant estimates and assumptions. These estimates and assumptions are developed based on the best available information and are believed by management to be reasonable under the existing circumstances. New events or additional information may result in the revision of these estimates over time. A summary of the significant accounting policies used by BC Transit can be found in the notes to the financial statements.

Basis of Accounting

The consolidated financial statements are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards as required by Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia except in regard to the accounting for government transfers which is based on the Restricted Regulation 198/2011 and as advised by the Office of the Comptroller General of British Columbia. The audited consolidated financial statements disclose the significant accounting policies under this basis of accounting.

Significant Accounting Changes:

In March 2011, PSAB released a new Public Sector Accounting Standard PS 3410 "Government Transfers". In November 2011, the Province of British Columbia Treasury Board ("Treasury Board") provided a directive through Restricted Contributions Regulation 198/2011 providing direction for the reporting of restricted contributions whether they are received or receivable by BC Transit before or after this regulation was in effect. The Treasury Board direction on the accounting treatment of restricted contributions is as described in Note 2(e)(i) and 2(e)(ii) of the consolidated financial statements.

Future accounting policy changes:

In June 2010, PSAB issued PS 3260 Liability for Contaminated Sites. PS 3260 establishes recognition, measurement and disclosure standards for liabilities relating to contaminated sites of governments. The main features of the Section are as follows:

- A liability should be recognized when contamination exceeds an accepted environmental standard and the entity is directly responsible, or accepts responsibility for the damage.
- A liability should be measured at the entity's best estimate of the costs directly attributable to remediation of the contamination; and
- Outstanding site assessments do not negate the requirement to assess whether a liability exists.

Management is evaluating the impact of PS 3260, which will be adopted for fiscal 2015.

Opportunities and Risk Factors

Long Term Funding

Both local and provincial funding partners confirm budgets annually. Consequently, only the current year's funding levels are committed. Subsequent years' funding will be impacted by prevailing economic conditions.

Ongoing economic uncertainty can impact transit programs. Ridership may decline as overall travel usually decreases in a slower economy. Local governments fund transit system expenditures with property taxes (2012/13 - 23.8 per cent), and the remaining is generated through passenger fares, advertising, investments, and fuel tax (2012/13 – 28.3 per cent). Therefore, local governments absorb the risk of revenue shortfalls when they may occur.

The funding requirements for infrastructure replacement, operating cost inflation and expansion will continue to put pressure on provincial and local governments to fund user demand for service. The occurrence of service reductions has increased in the province as local communities balance their service level demands with affordability.

Operating Contract Renewals

Over the next three years, operating contracts in 16 regional transit systems will expire. Historically, the competitive bid process has resulted in higher contracted costs due to a lack of market competition. This past year, BC Transit revised its contracting strategy and moving forward proposals will be solicited based on longer service periods, fixed cost provisions, and performance monitoring targets. This approach is anticipated to provide more certainty for both local funding partners and operating companies.

Fuel Prices

The most volatile financial risk is fuel pricing. Fuel price volatility remains high. BC Transit utilizes a fuel management program to mitigate the risk of fuel price volatility. The program includes entering into targeted fixed price supply agreements on a portion of fuel consumption to contain the cost volatility and identifying other initiatives to realize cost savings to market such as large volume bulk purchases to mitigate risk.

Maintenance

The cost of fleet maintenance continues to increase year-over-year. Maintenance costs for running repairs, major component overhauls and mid-life tune-ups are largely attributable to the age of the fleet, increasing costs of parts and the technological complexity of newer vehicles. Maintenance costs may also fluctuate due to volatility in foreign exchange as most parts originate from American or European suppliers.

To mitigate volatility associated with maintenance costs, BC Transit utilizes a preventative maintenance program that is proactive rather than reactive in nature. Major capital maintenance expenditures are also capitalized and amortized over their estimated useful lives to reduce volatility.

Labour Force Challenges

BC Transit administers three collective agreements. Unionized employees are represented by Canadian Autoworkers (CAW), Canadian Office & Professionals Employee's (COPE), and the Canadian Union of Public Employees (CUPE). The CAW and COPE agreements expired March 31, 2012 and the CUPE agreement expired on December 31, 2012.

In October 2012 through to January 2013, the Victoria region experienced a labour disruption as a result of negotiations with CAW Local 333. This had a direct result on service reliability in the Victoria Regional Transit System, and ultimately a loss in ridership. Agreements have now been reached with CAW Local 333 and COPE; however, an agreement with CUPE is outstanding.

Outside of Victoria, BC Transit relies on third parties – such as transit management companies – some of whose workforces are also unionized. If those workers engage in strike or other similar work stoppages, operations of BC Transit systems could be disrupted.

Additional new jobs will be required by contract operators delivering transit service in the remainder of the province to meet expected retirements and expansion. Loss of, or failure to attract and retain, key personnel could have an adverse effect on the ability to deliver on future plans and service objectives as outlined in the BC Transit Service Plan.

Taxation

Changes in taxation legislation and regulatory requirements may have a financial impact. On August 26, 2011, the Province announced the reinstatement of the combined 12 per cent PST and GST tax system following a referendum decision by British Columbians to extinguish the HST. This will negatively impact the cost of capital programs but positively impact the cost of contracted services after the transition back to PST and GST.

Other regulatory changes that could have a financial impact include environmental legislation and changes to procurement and other accounting requirements.

Economic Uncertainty

The current economic uncertainty is affecting transit programs in many ways. The volatility of commodity prices and currency rates, in particular with respect to oil and metals, has a direct impact on the cost of providing transit services. Economic downturns can also reduce transit ridership as overall travel usually decreases in a slower economy.

Alternatively, an economic downturn may result in a softening of contracted services rates if local labour markets cool off. BC Transit will be working closely with its local partners to monitor transit systems performance. Prudent financial management practices will be used to control costs and ensure performance is maintained in the top quartile of transit properties.

Changing Demand

In the past few years, BC Transit services experienced record demand throughout the province. However, 2012/13 presented challenges resulting reduced service levels that caused ridership to flatten for most communities and to decline for the Victoria Regional Transit System. If maintaining service levels becomes a significant constraint for several local government partners, transit ridership can be negatively affected. Transit ridership is highly correlated with service hours and is also influenced by growing concern with respect to the environment and the costs of driving. Continued growth for a number of communities is challenged by the fiscal capacity of local funding partners to supply additional service, expanded bus fleets and associated infrastructure.

Organizational Capacity

BC Transit's ability to meet its objectives in 2012/13 was impacted primarily by local partner funding constraints and a labour disruption in Victoria. The results of a recent performance audit completed by the Office of the Auditor General confirms that while BC Transit has made improvements to enhance ridership, there is a shortfall between actual ridership and targets set in the *Provincial Transit Plan*. The drive to meet *Provincial Transit Plan* targets must be balanced with the ability to fund necessary service expansion and associated infrastructure. While the demand for transit remains strong, a slow economic recovery has resulted in competing municipal priorities and less capacity to fund new or expanded transit services. BC Transit remains committed to driving ridership and will continue to work with local partners to maximize the efficiency of existing service levels, and strategically prioritize investments to maximize ridership gains.

Workforce challenges also impacted the ability for BC Transit to meet its ridership targets over the last year. Labour disruption in the Victoria region resulted in service cancellations and a loss of ridership. BC Transit and CAW Local 333 have since reached an agreement, but regaining riders in the region that have shifted to alternate modes of transportation could take time.

In addition, the ability to attract and retain qualified personnel to meet organizational objectives is an ongoing concern, particularly with regards to the recruitment of skilled trades and qualified professionals (e.g. finance, planning and scheduling). A government mandated wage freeze for excluded employees has made it more difficult to compete with the private sector and other transit authorities for qualified professionals. In response to this challenge, BC Transit has developed a Human Resources Action Plan, which is focused on strengthening culture, succession planning, and building internal capacity through professional development opportunities.

Outlook

BC Transit's 2013/14 – 2015/16 Revised Service Plan describes the transit program for the next three years in response to Government's direction. The plan can be found on BC Transit's website[13] and an excerpt is included on the following page. Over the next three years, BC Transit will need to balance growing expectations from customers with the funding abilities of its partners. A slow economic recovery, combined with competing municipal priorities, has made it even more difficult to provide the service levels that meet changing ridership demand.

Despite fiscal constraints, the future also presents opportunities. BC Transit will continue to work with provincial and local partners to strengthen relationships through greater consultation, collaboration and improved reporting. With the implementation of the Human Resources Action Plan, focus will be given to organizational culture, employee attraction and retention. In addition, with a significant amount of the fleet requiring replacement, opportunities to test new technologies that decrease reliance on volatile fuel markets will be undertaken.

13 http://www.bctransit.com/corporate/general_info/annual_reports.cfm#service_plan

BC Transit 2013/14 – 2015/16 Forecast *

(figures in thousands of dollars)

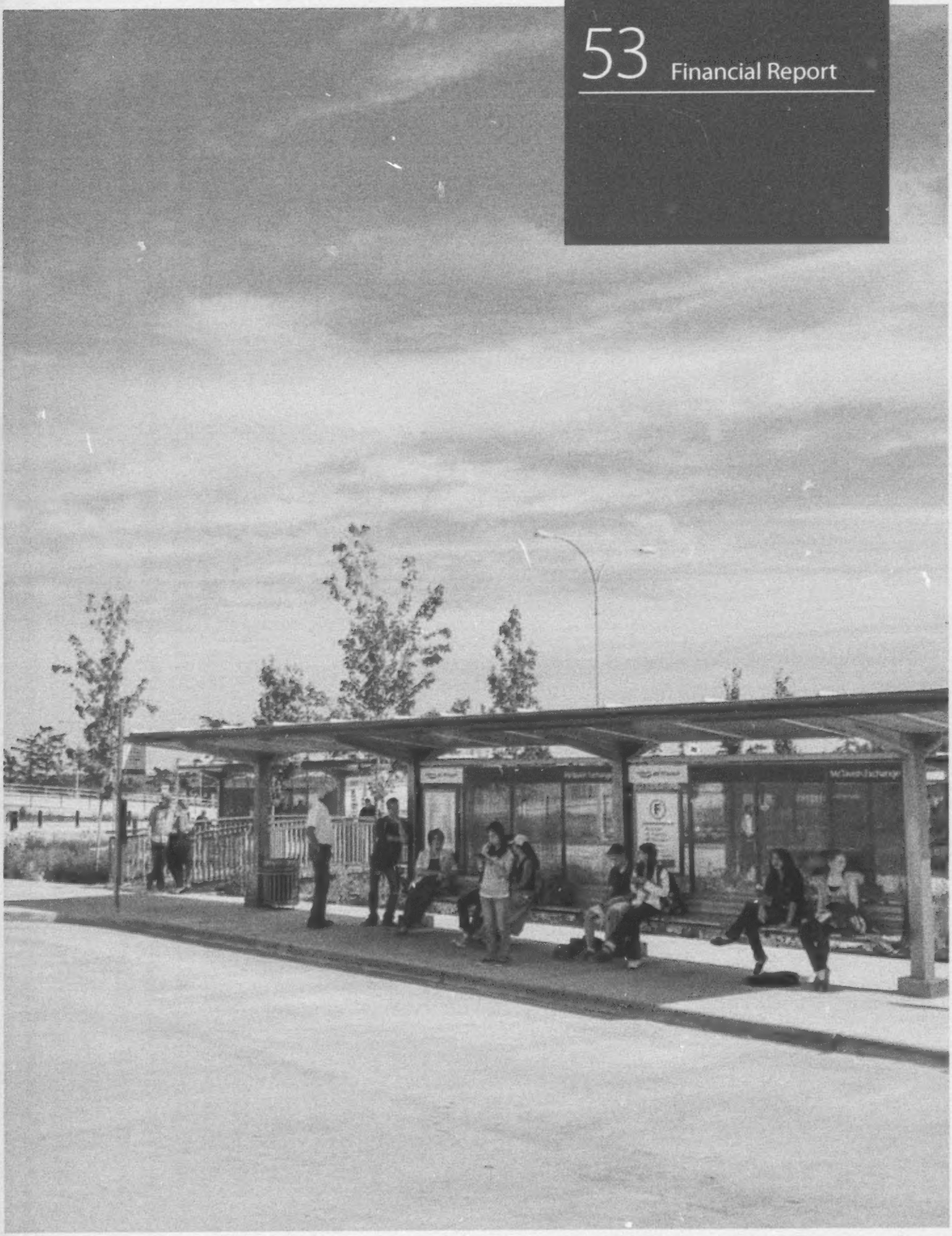
Revised June 2013

Income Statement	2013/14 Plan	2014/15 Plan	2015/16 Plan
Revenue:	($)	($)	($)
Operating Contributions from the Province	101,761	106,894	113,235
Amortization of Deferred Capital Contribution (DCC)*	46,856	50,102	45,816
Amortization of Contributed Surplus and Other Capital Grants**	1,119	1,502	1,731
Local taxation	88,401	100,713	113,730
Passenger & advertising revenue	69,877	70,625	71,793
Investment & other earnings	4,329	4,886	4,905
Total Revenues	**312,343**	**334,722**	**351,210**
Expenditures:			
Operating Costs			
Operations	161,457	169,944	181,319
Maintenance	46,346	48,505	51,174
Administration	23,164	23,739	24,833
Total Operating Costs	**230,967**	**242,188**	**257,326**
Capital asset amortization expense**	69,825	79,436	79,477
Debt service costs	11,551	13,098	14,407
Total Expenditures	**312,343**	**334,722**	**351,210**
Net Income (Loss)	–	–	–
Capital Expenditures	**109,424**	**129,525**	**104,574**
Long Term Debt:			
Debt	250,151	276,288	289,646
Sinking Funds	99,826	108,969	113,698
Net Debt	**150,325**	**167,319**	**175,948**
Net Assets	**59,838**	**59,408**	**59,978**

* *BC Transit receives capital funding for the construction or acquisition of assets and their use in program/service delivery. Capital contributions are deferred and recognized in revenue over the useful life of the asset, as program/services are delivered, as directed by the Province.*

** *For purposes of this Service Plan, amortization of Contributed Surplus is disclosed as Revenue. Accepted financial statement disclosure records amortization of Contributed Surplus as a recovery from Accumulated Surplus. Retrospective amortization on the change in accounting policy is not included for Service Plan purposes.*

53 Financial Report



MANAGEMENT REPORT

Year ended March 31, 2013

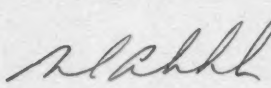
The consolidated financial statements of British Columbia Transit ("BC Transit") are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards as required by Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia except in regard to the accounting for government transfers which is based on the Restricted Contributions Regulation 198/2011 and as advised by the Office of the Comptroller General of British Columbia.

These consolidated financial statements include some amounts based on management's best estimates and careful judgment. A precise determination of many assets and liabilities is dependent upon future events and, consequently, the preparation of periodic consolidated financial statements necessarily involves the use of management's judgment in establishing the estimates and approximations used. The consolidated financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized in the notes to the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available as at May 30, 2013.

BC Transit's system of internal controls is designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and executed in accordance with management's authorization, financial information is reliable and ethics codes are observed. Inherent to the concept of reasonable assurance is the recognition that there are limits in all internal control systems and that system costs should not exceed the expected benefits. The system includes the selection, training and development of qualified personnel, organizational division of responsibilities, appropriate delegation of authority and formal written company policies and procedures including the conflict of interest policy of all BC Transit officers and employees.

The consolidated financial statements have been examined by the Auditor General of British Columbia, BC Transit's independent external auditors. Their responsibility is to express their opinion whether the consolidated financial statements in all material respects, present fairly the consolidated financial position as at March 31, 2013 and the consolidated statements of operations, consolidated statements of change in net debt, consolidated statement of remeasurement gains and losses, and the consolidated statements of cash flows for the year then ended in accordance with Canadian public sector accounting standards. Their report follows. The Board of Directors meets regularly with management and the external auditors to satisfy itself that the company's system of internal control is adequate, to ensure that responsibilities for financial reporting are being met, and to provide an opportunity for full and open access to the Board of Directors in respect to financial reporting matters.

Management is responsible for all of the information in this Annual Report. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.



Manuel Achadinha
President and Chief Executive Officer
Date: May 30, 2013

Michael Kohl, CA
Vice President, Finance and Chief Financial Officer
Date: May 30, 2013

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of British Columbia Transit, and
To the Minister of Transportation and Infrastructure, Province of British Columbia

I have audited the accompanying consolidated financial statements of British Columbia Transit, which comprise the consolidated statement of financial position as at March 31, 2013, and the consolidated statement of operations, consolidated statement of change in net debt, consolidated statement of remeasurement gains and losses and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the accounting requirements of section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia, and for such internal control as management determines, is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

BC TRANSIT
Independent Auditor's Report

Opinion

In my opinion, the consolidated financial statements of British Columbia Transit for the year ended March 31, 2013, are prepared, in all material respects, in accordance with the accounting requirements of section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia.

Emphasis of Matter

Without modifying my opinion, I draw attention to Note 2(a) to the consolidated financial statements which discloses that the accounting requirements of section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia are in accordance with Canadian public sector accounting standards except in regard to the accounting treatment of government transfers. Note 18 to the consolidated financial statements discloses the impact of these differences.

Victoria, British Columbia
May 30, 2013

Russ Jones, MBA, CA
Auditor General (Acting)

OFFICE OF THE
Auditor General
of British Columbia

BRITISH COLUMBIA TRANSIT

Consolidated Statements of Financial Position
(Expressed in thousands of dollars)

As at March 31

	2013	2012
Financial assets:		
Cash and cash equivalents (note 3)	$ 69,878	$ 87,898
Accounts receivable:		
Provincial and federal capital grants	1,056	2,033
Local government	12,905	13,317
Trade and other	7,585	7,091
Debt sinking funds (note 6)	85,429	64,199
	176,853	174,538
Liabilities:		
Accounts payable and accrued liabilities	31,955	28,370
Provincial funding payable	5,162	10,331
Deferred contributions (note 4)	6,822	7,347
Deferred capital contributions (note 5)	807,748	821,561
Debt (note 6)	240,706	240,665
Employee future benefits (note 7)	14,963	13,448
	1,107,356	1,121,722
Net debt:	(930,503)	(947,184)
Non-financial assets:		
Tangible capital assets (note 8)	304,496	311,935
Tangible capital assets under lease (note 9)	672,676	680,737
Inventories	8,335	8,166
Prepaid expenses	1,268	1,944
Prepaid lease payments	3,996	3,473
	990,771	1,006,255
Accumulated surplus:	$ 60,268	$ 59,071
Accumulated surplus is comprised of:		
Accumulated operating surplus	$ 52,131	$ 52,565
Accumulated remeasurement gains	8,137	6,506
	$ 60,268	$ 59,071

Commitments and contingencies (notes 11 and 12)

The accompanying notes are an integral part of these consolidated financial statements

BRITISH COLUMBIA TRANSIT

Consolidated Statements of Operations
(Expressed in thousands of dollars)

Years ended March 31

	Budget (note 15)	2013	2012
Revenue:			
Operations	$ 68,091	$ 67,944	$ 67,847
Government transfers:			
Provincial (note 13)	96,639	89,013	88,065
Local government (note 13)	88,999	76,312	75,483
Amortization of deferred capital contributions	35,762	28,805	27,183
Investment and other income	3,093	4,152	2,947
	292,584	266,226	261,525
Expenses: (note 14)			
Operations	224,238	201,116	198,936
Maintenance	45,534	42,933	40,652
Administration	22,812	22,390	22,568
	292,584	266,439	262,156
Net loss from operations	-	(213)	(631)
Other:			
Vancouver assets - amortization of deferred capital contributions (note 5)	31,242	14,340	31,242
Vancouver assets - amortization expense (note 9)	(32,654)	(14,769)	(32,654)
Amortization of contributed surplus	1,412	-	-
(Loss)/Gain on disposal of tangible capital assets and assets under lease	-	(370)	11
Gain on foreign exchange and investments	-	578	620
	-	(221)	(781)
Annual deficit	-	(434)	(1,412)
Accumulated operating surplus, beginning of year	52,565	52,565	53,977
Accumulated operating surplus, end of year	$ 52,565	$ 52,131	$ 52,565

The accompanying notes are an integral part of these consolidated financial statements

BRITISH COLUMBIA TRANSIT

Consolidated Statements of Change in Net Debt
(Expressed in thousands of dollars)

Years ended March 31

	Budget (note 15)	2013	2012
Annual deficit	$ -	$ (434)	$ (1,412)
Acquisition of tangible capital assets	(90,373)	(47,631)	(36,436)
Amortization of tangible capital assets	92,854	62,508	79,766
Amortization of prepaid lease	-		106
Loss (Gain) on sale of tangible capital assets	-	370	(11)
Proceeds on sale of tangible capital assets and assets under lease	-	253	30
	2,481	15,066	42,043
Acquisition of inventories of parts	-	(23,807)	(27,156)
Consumption of inventories of parts	-	23,638	27,276
Acquisition of prepaid expenses	-	(4,345)	(2,052)
Consumption of prepaid expenses	-	5,021	1,072
Acquisition of prepaid leases	-	(801)	-
Consumption of prepaid leases	-	278	-
	-	(16)	(860)
Realized (gain) loss reclassified to operations	-	(254)	(620)
Unrealized gain (loss) on portfolio investment	-	1,885	4,225
	-	1,631	3,605
Change in net debt	2,481	16,681	44,788
Net debt, beginning of year	(947,184)	(947,184)	(991,972)
Net debt, end of year	$ (944,703)	$ (930,503)	$ (947,184)

The accompanying notes are an integral part of these consolidated financial statements

BRITISH COLUMBIA TRANSIT

Consolidated Statement of Remeasurement Gains and Losses
(Expressed in thousands of dollars)

Years ended March 31

	2013	2012
Accumulated remeasurement gains and (losses), beginning of year	$ 6,506	$ 2,901
Unrealized gain on investments	1,885	4,225
Realized gain on investments, reclassified to gain on foreign exchange and investments	(254)	(620)
Accumulated remeasurement gains and (losses), end of year	$ 8,137	$ 6,506

The accompanying notes are an integral part of these consolidated financial statements

BRITISH COLUMBIA TRANSIT

Consolidated Statements of Cash Flows
(Expressed in thousands of dollars)

Years ended March 31

	2013	2012
Cash provided by (used in):		
Operating activities:		
Annual deficit	$ (434)	$ (1,412)
Items not involving cash:		
Amortization of debt discount	41	41
Amortization of tangible capital assets	62,508	79,766
Amortization of prepaid lease	273	106
Loss (Gain) on sale of tangible capital assets	370	(11)
Amortization of deferred capital contributions	(43,145)	(58,425)
Changes in non-cash assets and liabilities:		
Accounts receivable	895	(2,218)
Accounts payable and accrued liabilities	3,585	6,803
Provincial funding payable	(5,169)	
Deferred contributions	(525)	179
Employee future benefits	1,515	1,203
Inventories	(169)	120
Prepaid expenses	676	(980)
Net change in cash from operating activities	20,421	25,172
Capital activities:		
Proceeds from disposal of assets under lease	50	-
Proceeds on sale of tangible capital assets	203	30
Cash used to acquire tangible capital assets and assets under lease	(47,631)	(36,436)
Net change in cash from capital activities	(47,378)	(36,406)
Investing activities:		
Increase in debt sinking funds and investments net of unrealized gain	(19,599)	(9,063)
Net change in cash from investing activities	(19,599)	(9,063)
Financing activities:		
Prepaid lease payments	(796)	-
Debt issued	-	44,151
Debt repaid	-	(9,930)
Deferred capital contributions received	29,332	19,940
Net change in cash from financing activities	28,536	54,161
Net change in cash and cash equivalents	(18,020)	33,864
Cash and cash equivalents, beginning of year	87,898	54,034
Cash and cash equivalents, end of year	$ 69,878	$ 87,898
Supplemental cash flow information:		
Cash paid for interest	$ 11,073	$ 10,684
Cash received from interest	$ 3,617	$ 2,283

The accompanying notes are an integral part of these consolidated financial statements.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

1. Nature of Operations:

British Columbia Transit ("BC Transit") was established under the *British Columbia Transit Act*, as amended in 1998, to operate the urban transit systems in the Province of British Columbia (the "Province") outside of the Metro Vancouver Regional service area. BC Transit is exempt from income taxes under the *Income Tax Act*.

BC Transit, on behalf of the Victoria Regional Transit Commission, is responsible for the administration of all funds raised by certain tax levies. These funds held in trust are excluded from the consolidated financial statements.

The financial position and changes in the funds during the year are set out in note 10.

2. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements have been prepared in accordance with the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada as required by Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia and supplemented by Regulation 198/2011 issued by the Province of British Columbia Treasury Board.

Regulation 198/2011 requires that restricted contributions for the purpose of acquiring or developing a depreciable tangible capital asset be recorded and recognized in revenue at the same rate the amortization of the related tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.

Canadian public sector accounting standards require government transfers, which do not contain a stipulation that creates a liability, to be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met. The regulation allows for the deferral of revenue recognition to future years, recognized in income systematically over the useful life of the asset, rather than in the year the transfer was made, resulting in differences in Deferred Capital Contributions, and Accumulated Operating Surplus on the Consolidated Statements of Financial Position, and the Government transfers revenue and Annual Surplus on the Statement of Operations.

(b) Basis of accounting:

BC Transit follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

2. Significant accounting policies (continued):

(c) Future accounting policy changes:

(i) Liability for contaminated sites:

In June 2010, the Public Sector Accounting Board (PSAB) issued PS 3260 *Liability for Contaminated Sites*. PS 3260 establishes recognition, measurement and disclosure standards for liabilities relating to contaminated sites of governments. The main features of the section are as follows:

- A liability should be recognized when contamination exceeds an accepted environmental standard and the entity is directly responsible, or accepts responsibility for the damage.
- A liability should be measured at the entity's best estimate of the costs directly attributable to remediation of the contamination; and
- Outstanding site assessments do not negate the requirement to assess whether a liability exists.

Management is evaluating the impact of PS 3260, which will be adopted for fiscal 2015.

(d) Basis of consolidation:

(i) Consolidated entities

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of organizations which are controlled by BC Transit. Controlled organizations are consolidated with inter-organizational transactions, balances, and activities eliminated on consolidation.

The following organizations are controlled by BC Transit and fully consolidated in these financial statements:

TBC Vehicle Management Inc.

TBC Operations Inc.

TBC Properties Inc.

0915866 B.C. Ltd.

0922667 B.C. Ltd.

0925406 B.C. Ltd.

0928624 B.C. Ltd.

(e) Deferred contributions and revenue recognition

Government transfers received relate to contributions from federal, provincial and local governments to fund capital projects, operating costs, sinking fund and interest payments.

Under Restricted Contributions Regulation 198/2011, government transfers are reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

2. Significant accounting policies (continued):

(e) Deferred contributions and revenue recognition (continued)

(i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or in the form of a depreciable tangible capital asset, in each case for use in providing services are recorded and referred to as deferred capital contributions and recognized in revenue at the same rate that amortization of the tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.

(ii) Contributions restricted for specific purposes other than for those to be held in perpetuity or the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the year in which the stipulation or restriction on the contribution has been met.

See note 18 for the impact of this regulation on these consolidated financial statements.

Transit user charges are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated, collection is reasonably assured and when services have been provided to the users.

(f) Investment income:

Investment income is reported as revenue in the period earned. When required by the funding party or related Act, investment income earned on deferred contributions is added to the investment and forms part of the deferred contributions balance.

(g) Financial instruments:

BC Transit has elected to measure specific financial instruments at fair value, to correspond with how they are evaluated and managed. These financial instruments are identified in this note by financial asset and financial liability classification and are not reclassified for the duration of the period they are held. All other financial assets and financial liabilities are measured at cost or amortized cost. The following classification system is used to describe the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Market based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3 - Inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

2. Significant accounting policies (continued):

(g) Financial instruments (continued)

Unrealized gains and losses from changes in the fair value of financial instruments are recognized in the statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of remeasurement gains and losses and recognized in the statement of operations. Interest and dividends attributable to financial instruments are reported in the statement of operations.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations. A write down of a portfolio investment to reflect a loss in value is not reversed for a subsequent increase in value.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense. Transaction costs are a component of cost for financial instruments measured using cost or amortized cost.

(i) Cash and cash equivalents

Cash and cash equivalents include cash on hand, certificates of deposit and short-term investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. These short-term investments generally have a term to maturity of 90 days or less at acquisition, are held for the purpose of meeting short term cash commitments rather than for investing, are reported at fair value and measured using a Level 1 valuation.

(ii) Accounts receivable

Accounts receivable are recorded at cost less any amount for valuation allowance. Valuation allowances are made to reflect accounts receivable at the lower of cost and the net recoverable value, when collectability and risk of loss exists. Changes in valuation allowance are recognized in the statement of operations.

(iii) Debt sinking funds

Investments in sinking fund balances consist of pooled investment portfolios and Canadian, Provincial government and Crown Corporation bonds managed by the British Columbia Investments Management Corporation ("bcIMC"), a corporation established under the *Public Sector Pension Plans Act*. Sinking fund investments are recorded at fair value and measured using a Level 1 valuation. Discounts and premiums arising on the purchase of these investments are amortized over the term of the investments.

(iv) Debt and other financial liabilities

All debt and other financial liabilities are recorded using cost or amortized cost.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

2. Significant accounting policies (continued):

(h) Employee future benefits

BC Transit and its employees contribute to the Public Service Pension Plan (the "Plan"), a jointly trusteed pension plan. The Board of Trustees, representing Plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The Plan has about 54,000 active plan members and approximately 38,000 retired plan members. Required contributions to the Plan are expensed as incurred. The maximum contribution rate for eligible employees was 9.28% (2012 – 9.28%). BC Transit's maximum contribution rate was 10.28% (2012 – 10.28%).

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of Plan funding. The most recent valuation as at March 31, 2011, indicated a deficit of $275,401 for basic pension benefits. The actuary does not attribute portions of the deficit to individual employers. The next required valuation is March 31, 2014.

Outside of the Public Service Pension Plan, BC Transit maintains various benefit arrangements available to retired employees including non-pension post retirement benefits, post employment benefits and continuation of long term disability benefits. The future obligation under these benefit plans are accrued as the employees render the services necessary to earn the benefit. Management, using an estimate of salary escalation and expected retirement ages, calculates the cost of the defined retirement benefit. The recorded liability represents these estimated future costs discounted to a present value using market interest rates applicable to BC Transit. The accrued employee benefit obligations and the net periodic benefit cost were estimated by an actuarial valuation completed effective for March 31, 2013.

(i) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets are amortized on a straight line basis over their estimated useful lives as follows:

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

2. Significant accounting policies (continued):

(i) Non-financial assets (continued):

Asset	Useful Life - Years
Land	Indefinite – not amortized
Exchanges, shelters, and other transit infrastructure	3 – 40
Buildings	5 – 40
Vehicles – including major components	2 – 20
Hydrogen vehicles	5 – 10
Hydrogen fuelling station	5
Equipment and other capital assets	4 – 20

(ii) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt with a corresponding entry to deferred capital contributions. Tangible capital assets are amortized over their estimated useful lives.

(iii) Interest capitalization:

Interest is capitalized whenever external debt is issued to finance the construction of tangible capital assets. Interest is capitalized from the date of advance of funds until the assets are available for service.

(iv) Leased tangible capital assets:

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

Asset	Useful Life - Years
SkyTrain – transit infrastructure	75 – 100
SkyTrain buildings	20
West Coast Express – transit infrastructure	30

(v) Inventories:

Inventories held for consumption are recorded at the lower of cost and replacement cost.

(vi) Impairment of tangible capital assets:

BC Transit monitors the recoverability of tangible capital assets. Whenever events or changes in circumstances indicate that the tangible capital asset no longer contributes to the ability to provide transit services or that the value of the future economic benefits

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

2. Significant accounting policies (continued):

(vi) Impairment of tangible capital assets (continued)

associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset is written down to residual value.

(vii) Intangibles:

Intangible assets are not recognized in government financial statements.

(j) Measurement uncertainty:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the consolidated financial statements and the reported amounts of the revenues and expenses during the period.

Estimates are based on the best information available at the time of preparation of the consolidated financial statements and are reviewed annually to reflect new information as it becomes available. Significant measurement uncertainty includes assumptions used in the determination of amortization periods and estimating provisions for certain accrued liabilities. Actual results could differ from these estimates.

3. Cash and cash equivalents:

Major components of cash and cash equivalents are as follows:

	2013	2012
Cash	$ 8,872	$ 9,916
Cash equivalents	61,006	77,982
	$ 69,878	87,898

4. Deferred contributions:

Debt service contributions to fund sinking fund and interest payments are recovered from local municipal partners over the estimated service life of the related assets. These contributions may differ from the annual amortization of the related assets. Such differences are deferred to be recognized as a recovery in future periods.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

4. Deferred contributions (continued):

The deferred contributions, reported on the consolidated statement of financial position, are made up of the following:

	2013	2012
Provincial funding	$ 1,876	$ 1,876
Deferred local contributions	4,946	5,471
Total deferred contributions	$ 6,822	$ 7,347

Continuity of deferred contributions is as follows:

	2013	2012
Balance, beginning of year	$ 7,347	$ 7,168
Provincial funding	-	6
Contributions from local governments – Victoria Regional	33,320	33,421
Contributions from other local governments	42,467	42,229
	83,134	82,824
Deferred local contributions used	(76,312)	(75,477)
Balance, end of year	$ 6,822	7,347

5. Deferred capital contributions:

The deferred capital contributions, reported on the consolidated statement of financial position, are made up of the following:

	2013	2012
Deferred capital contributions	$ 187,135	$ 193,366
Vancouver assets - deferred capital contributions	620,613	628,195
Total deferred capital contributions	$ 807,748	$ 821,561

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

5. Deferred capital contributions (continued):

Deferred capital contributions include Federal and Provincial grants subject to amortization on the same basis as the related asset.

		2013	2012
Balance, beginning of year	$	193,366	$ 200,609
Contributions and other additions		22,574	19,940
Amortization		(28,805)	(27,183)
Balance, end of year		187,135	193,366
Capital assets under lease:			
Balance, beginning of year		628,195	659,437
Contributions and other additions		6,758	-
Amortization		(14,340)	(31,242)
Balance, end of year		620,613	628,195
Total deferred capital contributions	$	807,748	$ 821,561

BC Transit owns certain West Coast Express and SkyTrain infrastructure in Vancouver. The SkyTrain infrastructure included lands surplus to the operation of the Expo Line. In prior years BC Transit has disposed of certain surplus lands. The Ministry of Transportation and Infrastructure granted these and other accumulated funds to BC Transit to use for operating and capital expenditures. No amounts (2012 - $0) were used to purchase capital assets in the year. The remaining unexpended amounts represent funds designated for capital and special projects. Deferred contributions also includes $71 (2012 - $71) received from the Ministry of Environment and held for retro-fitting diesel motors.

6. Debt:

BC Transit's debt, including principal and interest, is either held or guaranteed by the Province. BC Transit has not experienced any losses to date under this indemnity. Under the *British Columbia Transit Act*, BC Transit is subject to a borrowing limit of $500 million in total. The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request.

The gross amount of debt and the amount of sinking fund assets available to retire the debt are as follows:

		2013	2012
Sinking fund bonds, weighted average interest rate of 4.60%, maturing at various dates to 2040, amortized from 5 to 30 years	$	240,706	$ 240,665

Investments held in sinking funds, including interest earned, are to be used to repay the related debt at maturity. Investment income includes $157 (2012 - $623) of realized gains on disposition of investments in sinking funds.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

6. Debt (continued):

Sinking fund investments are managed by the British Columbia Investment Management Corporation and have cost and market values as follows:

	2013		2012	
	Cost	Market value	Cost	Market value
Money market funds	$ 5,322	$ 5,324	$ 287	$ 287
Provincial bonds	72,380	80,105	57,505	63,912
Total	$ 77,702	$ 85,429	$ 57,792	$ 64,199

The total debt maturities for the next five years are as follows:

2014	$ 9,604
2015	19,275
2016	25,595
2017	6,378
2018	-
Thereafter	180,079

Debt sinking fund installments in each of the next five years are as follows:

2014	$ 16,857
2015	15,284
2016	12,638
2017	8,005
2018	6,780
Thereafter	43,948

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

7. Employee future benefits:

Information about BC Transit's benefit plans is as follows:

	2013	2012
Non-pension post retirement benefits	$ 16,307	$ 12,822
Post employment benefits	432	445
Continuation of long term disability benefits	1,389	1,122
Total liability for benefits	$ 18,128	$ 14,389

The employee future benefits liability reported on the statement of financial position is as follows:

	2013	2012
Accrued benefit obligation:		
Balance, beginning of year	$ 13,448	$ 12,245
Current benefit cost and event-driven expense	1,305	1,095
Interest	572	535
Actuarial gain (loss)	85	(2)
Benefits paid	(447)	(425)
Balance, end of year	14,963	13,448
Unamortized actuarial loss (gain)	3,165	941
Liability for benefits	$ 18,128	$ 14,389

Included in expenses is $85 (2012 – ($2 gain)) for amortization of the actuarial loss.

The unamortized actuarial loss on future payments is amortized over the expected period of the liability which is 10 years for post employment benefits and 11 years for post retirement benefits.

The significant actuarial assumptions adopted in measuring BC Transit's accrued benefit obligations are as follows:

	2013	2012
Discount rate	2.6% – 3.3%	3.5% - 4.1%
Expected future inflationary increases	2.6% - 5.15%	2.6% - 5.2%
Weighted average health care trend - end of year	7.06% in 2013 grading to 4.50% in and after 2029	7.24% in 2012 grading to 4.5% in and after 2029
Dental and MSP trend – end of year	4.5%	4.5%

Total cash payments for employee future benefits for the year ended March 31, 2013 consisting of cash contributed by the Company to its multi-employer defined benefit plan was $3,753 (2011/12 - $3,674)

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

8. Tangible capital assets:

Cost	Balance, March 31, 2012	Additions	Disposals	Balance, March 31, 2013
Land	$ 2,608	$ -	$ -	$ 2,608
Exchanges, shelters and other transit infrastructure	16,259	6,054	-	22,313
Buildings	42,074	367	-	42,441
Vehicles	367,486	13,625	(6,472)	374,639
Hydrogen vehicles	52,648	-	-	52,648
Hydrogen fuel station	9,810	-	-	9,810
Other equipment	35,172	3,835	-	39,007
Capital projects in progress	35,563	40,873	(23,881)	52,555
Total	$ 561,620	$ 64,754	$ (30,353)	$ 596,021

Accumulated amortization	Balance, March 31, 2012	Disposals	Amortization expense	Balance, March 31, 2013
Exchanges, shelters and other transit infrastructure	$ 3,312	$ -	$ 1,156	$ 4,468
Buildings	17,727	-	1,510	19,237
Vehicles	183,206	(5,899)	30,842	208,149
Hydrogen vehicles	21,009	-	9,352	30,361
Hydrogen fuel station	4,408	-	1,962	6,370
Other equipment	20,023	-	2,917	22,940
Capital projects in progress	-	-	-	-
Total	$ 249,685	$ (5,899)	$ 47,739	$ 291,525

Net book value	Balance March 31, 2012	Balance March 31, 2013
Land	$ 2,608	$ 2,608
Exchanges, shelters, and other transit infrastructure	12,947	17,845
Buildings	24,347	23,204
Vehicles	184,280	166,490
Hydrogen vehicles	31,639	22,287
Hydrogen fuel station	5,402	3,440
Other equipment	15,149	16,067
Capital projects in progress	35,563	52,555
Total	$ 311,935	$ 304,496

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

8. Tangible capital assets (continued):

Cost	Balance, March 31, 2011	Additions	Disposals	Balance, March 31, 2012
Land	$ 2,608	$ -	$ -	$ 2,608
Exchanges, shelters and other transit infrastructure	10,391	5,868	-	16,259
Buildings	37,361	4,713	-	42,074
Vehicles	356,212	12,987	1,713	367,486
Hydrogen vehicles	52,648	-	-	52,648
Hydrogen fuel station	9,810	-	-	9,810
Other equipment	25,447	9,725	-	35,172
Capital projects in progress	33,787	36,439	34,663	35,563
Total	$ 528,264	$ 69,732	$ 36,376	$ 561,620

Accumulated amortization	Balance, March 31, 2011	Disposals	Amortization expense	Balance, March 31, 2012
Exchanges, shelters and other transit infrastructure	$ 2,652	$ -	$ 660	$ 3,312
Buildings	16,409	-	1,318	17,727
Vehicles	153,975	1,692	30,923	183,206
Hydrogen vehicles	10,923	-	10,086	21,009
Hydrogen fuel station	2,446	-	1,962	4,408
Other equipment	17,860	-	2,163	20,023
Capital projects in progress	-		-	-
Total	$ 204,265	$ 1,692	$ 47,112	$ 249,685

Net book value	Balance, March 31, 2011	Balance, March 31, 2012
Land	$ 2,608	$ 2,608
Exchanges, shelters and other transit infrastructure	7,739	12,947
Buildings	20,952	24,347
Vehicles	202,237	184,280
Hydrogen vehicles	41,725	31,639
Hydrogen fuel station	7,364	5,402
Other equipment	7,587	15,149
Capital projects in progress	33,787	35,563
Total	$ 323,999	$ 311,935

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

8. Tangible capital assets (continued):

Assets under construction having a value of $52,555 (2012 - $35,563) have not been amortized. Amortization of these assets will commence when the asset is available for service.

During the year, $573 (2012 - $43) of equipment was recognized as a write-down when equipment was removed from service.

Interest capitalized for capital projects in 2013 was $556 (2012 - $998).

9. Tangible capital assets under lease:

Capital assets under lease consist of land, land improvements, stations, guideways and other assets related to the SkyTrain system and West Coast Express. These assets are made available to the South Coast British Columbia Transportation Authority ("SCBCTA") for their use pursuant to an Order in Council and operating lease and represent one of the Province's contributions toward public transportation in the Metro Vancouver service area.

The operating lease arrangements with SCBCTA are for one dollar per year under an initial 15-year term to 2014, with additional five-year renewal periods upon the agreement of BC Transit and the SCBCTA.

Cost	Balance, March 31, 2012	Additions	Disposals	Balance, March 31, 2013
SkyTrain	$ 1,204,098	$ -	$ (50)	$ 1,204,048
West Coast Express	128,848	-	-	128,848
Capital projects in progress	-	6,758	-	6,758
Total	$ 1,332,946	$ 6,758	$ (50)	$ 1,339,654

Accumulated amortization	Balance, March 31, 2012	Disposals	Amortization expense	Balance, March 31, 2013
SkyTrain	$ 581,708	$ -	$ 10,472	$ 592,180
West Coast Express	70,501	-	4,297	74,798
Capital projects in progress	-	-	-	-
Total	$ 652,209	$ -	$ 14,769	$ 666,978

Net book value	Balance, March 31, 2012	Balance, March 31, 2013
SkyTrain	$ 622,390	$ 611,868
West Coast Express	58,347	54,050
Capital projects in progress	-	6,758
Total	$ 680,737	$ 672,676

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

9. Tangible capital assets under lease (continued):

Effective April 1, 2012 BC Transit reviewed the useful life of its leased tangible capital assets in relation to its Vancouver SkyTrain and West Coast Express assets. An independent consulting firm was commissioned to conduct a technical review of the design, construction and current condition of these assets. Based on the conclusions in this report the expected service life of the SkyTrain was extended to 75-100 years compared to the previously used estimate of 40 years. The West Coast Express estimated useful life remained unchanged at 30 years, see note 2(i)(iv).

Cost	Balance, March 31, 2011	Additions	Disposals	Balance, March 31, 2012
SkyTrain	$ 1,204,098	$ -	$ -	$ 1,204,098
West Coast Express	128,848	-	-	128,848
Total	$ 1,332,946	$ -	$ -	$ 1,332,946

Accumulated amortization	Balance, March 31, 2011	Disposals	Amortization expense	Balance, March 31, 2012
SkyTrain	$ 553,348	$ -	$ 28,360	$ 581,708
West Coast Express	66,207	-	4,294	70,501
Total	$ 619,555	$ -	$ 32,654	$ 652,209

Net book value	Balance, March 31, 2011	Balance, March 31, 2012
SkyTrain	$ 650,750	$ 622,390
West Coast Express	62,641	58,347
Total	$ 713,391	$ 680,737

10. Victoria Regional Transit Commission:

BC Transit holds funds in trust on behalf of the Victoria Regional Transit Commission. These funds are not included in the consolidated statement of financial position. The cash held in trust and transactions during the year are as follows:

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

10. Victoria Regional Transit Commission (continued)

	2013	2012
Cash held in trust, beginning of year	$ 4,761	$ 2,386
Revenue:		
Fuel tax	11,855	11,853
Property tax	24,940	24,668
Interest earned	475	126
Government transfers	(33,570)	(34,272)
Cash held in trust, end of year	$ 8,461	$ 4,761

11. Commitments:

BC Transit has outstanding commitments as summarized below:

	2014	2015	2016	2017	2018
Operating leases	$ 1,322	$ 1,298	$ 1,249	$ 1,059	$ 1,026
Facilities	2,528	335	-	-	-
Vehicle purchases	13,827	-	-	-	-
Hydrogen fuel commitments	1,737	-	-	-	-
Fixed price fuel commitments	4,086	-	-	-	-
Information technology	2,000	287	287	253	253
	$ 25,500	$ 1,920	$ 1,536	$ 1,312	$ 1,279

12. Contingent liabilities:

The nature of BC Transit's activities is such that there is usually litigation pending or in process at any time. With respect to unsettled claims at March 31, 2013 management has determined that BC Transit has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the financial position of BC Transit.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

13. Government transfers:

BC Transit recognizes the transfer of funding as revenues in the period that the events giving rise to the transfer occurred. The transfers reported on the statement of operations are:

	2013	2012
Revenue:		
Provincial grants:		
Operating	$ 89,013	$ 88,071
Supplementary operating	-	(6)
	89,013	88,065
Capital	28,680	27,183
	117,693	115,248
Federal grants:		
Capital	125	-
Local government contributions:		
Transfers under cost share agreements	76,312	75,483
Capital		-
	76,437	75,483
Total revenues	$ 194,130	$ 190,731

14. Classification of expense by object:

	2013	2012
Contracted salaries, wages and benefits	71,028	68,393
Salaries, wages and benefits	63,893	63,560
Amortization of capital assets	47,740	47,112
Fuel	28,671	28,729
Fleet Maintenance	22,732	22,045
Interest	11,045	10,902
Insurance	4,360	3,902
Leases and taxes	2,479	2,460
Major projects and initiatives	1,538	2,641
Local government expenses	1,957	1,929
Marketing and communications	1,846	1,914
Taxi programs	1,703	1,848
Facility maintenance	2,518	2,451
Information systems	1,805	1,662
Corporate expenses	1,381	1,163
Professional fees	1,047	725
Travel and meetings	696	720
Total operating expenses	$ 266,439	$ 262,156

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

15. Budget data:

The budget data presented in these consolidated financial statements is based upon the 2013 operating and capital budgets in the approved BC Transit 2012/13 – 2014/15 Service Plan. The table below reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	Budget amount
Total funding	$ 415,611
Capital budget	(90,373)
Operating budget	325,238
Total expenditures	415,611
Less:	
Capital expenses	(90,373)
Total operating expenses	325,238
Annual surplus	$ -

16. Financial instruments:

(a) Fair value:

The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. Debt sinking funds are reflected on the statement of financial position at fair value. The fair value of long-term debt at March 31, 2013 is $240,706 (2012 - $240,665).

In evaluating the fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and/or different valuation techniques may have a material effect on the estimated fair value amounts for financial instruments. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

(b) Risks associated with financial assets and liabilities:

BC Transit is exposed to financial risks from its financial assets and liabilities. The financial risks include market risk relating to commodity prices, interest rates and foreign exchange risks as well as credit risk and liquidity risk.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

16. Financial instruments (continued)

(b) Risks associated with financial assets and liabilities (continued):

Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of commodity price risk, interest rate risk, foreign exchange risk and credit risk as discussed below.

Commodity price risk:

BC Transit is exposed to commodity price risk. Commodity price risk and volatility has a significant impact on BC Transit's fuel costs. Management continually monitors the exposure to commodity price volatility and assesses possible risk mitigation strategies including continuing to buy at rack prices, entering into a physical fixed price agreement to fix all or a portion of fuel prices with a supplier and/or the potential to enter into financial commodity derivative contracts. Management does not have the authority under the *British Columbia Transit Act* to enter into financial commodity derivative contracts directly. The ability for management to execute physical hedge agreements with suppliers is governed under formal policies and is subject to limits established by the Board of Directors. Management entered into a fixed price physical supply contract during the year fixing certain fuel purchases during fiscal 2013 as described in note 11.

Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate from changes in market interest rates. BC Transit is exposed to interest rate risk to the extent of changes in the prime interest rate. BC Transit may from time to time enter into interest rate swap contracts to manage exposure to interest rates and cash flow risk. No such derivative contracts were entered into during the year.

Foreign exchange risk:

BC Transit is exposed to currency risk on purchases and loans denominated in the U.S dollar. BC Transit periodically makes commitments to acquire certain capital assets, primarily transit vehicles, from suppliers requiring payment in either US dollars or pounds sterling. These risks are monitored and can be mitigated by management by entering into foreign currency option agreements. There were no such arrangements outstanding as at March 31, 2013.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

16. Financial instruments (continued)

(b) Risks associated with financial assets and liabilities (continued):

Sensitivity analysis:

The following table is a sensitivity analysis indicating the impact on net revenue (expenditures) of a change in each type of market risk discussed above. The sensitivity analysis is based on reasonable possible movement within the forecast period, being one year. These assumptions may not be representative of actual movements in these risks and should not be relied upon. Given the volatility in the financial and commodity markets, the actual percentage changes may differ significantly from the outcomes noted below. Each risk is contemplated independent of other risks.

1% change	
Interest rate risk	$ 110
Foreign exchange risk	488

Liquidity risk:

Liquidity risk is the risk that BC Transit will encounter difficulty in meeting obligations associated with financial liabilities as they come due. BC Transit manages liquidity risk through its cash, debt, sinking fund and funding management initiatives. Accounts payable and accrued liabilities are due in the next fiscal year. Maturity of long term debt is disclosed in note 6. Other commitments with future minimum payments are disclosed in note 11.

Credit risk:

It is management's opinion that BC Transit is not exposed to any significant credit risk.

(c) Capital disclosures:

BC Transit defines capital as accumulated surplus plus deferred capital contributions. BC Transit receives the majority of these operating and capital funds from Federal, Provincial or from municipal government partners.

BC Transit's objective when managing capital is to meet its current Service Plan initiatives with the current funding available. BC Transit manages its capital structure in conjunction with the Province and makes adjustments to its Service Plan and related budgets based on available government funding. The focus is to ensure that service levels are preserved within the funding restrictions by the Province and municipal partners.

BC Transit is not subject to debt covenants or other restrictions with respect to operating funding. Funding received for designated purposes must be used for the purpose outlined by the funding party. BC Transit has complied with the external restrictions on any external funding provided.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2013

17. Related party transactions:

As a Crown Corporation of the Province, BC Transit and the Province are considered related parties. All transactions between BC Transit and the Province are considered to possess commercial substance and are consequently recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Related party transactions and balances have been disclosed elsewhere in the financial statements.

18. Impact of accounting for Government Transfers in accordance with Section 23.1 of the *Budget Transparency and Accountability Act*:

As noted in the significant accounting policies note 2(a), Section 23.1 of the *Budget Transparency and Accountability Act* and Restricted Contributions Regulation 198/2001 require BC Transit to recognize government transfers for capital assets into revenue on the same basis as the related amortization expense. As these transfers do not contain stipulations that create a liability, Canadian public sector accounting standards would require these grants to be fully recognized into revenue. The impact of this difference on the consolidated financial statements of BC Transit is as follows:

Year ended March 31, 2013 – decrease in annual surplus by $14,338.

March 31, 2013 – increase in accumulated surplus by $814,570 a decrease in deferred capital contributions by $807,748 and a decrease in deferred contributions by $6,822.

19. Investment in Transportation Property and Casualty Company Inc.:

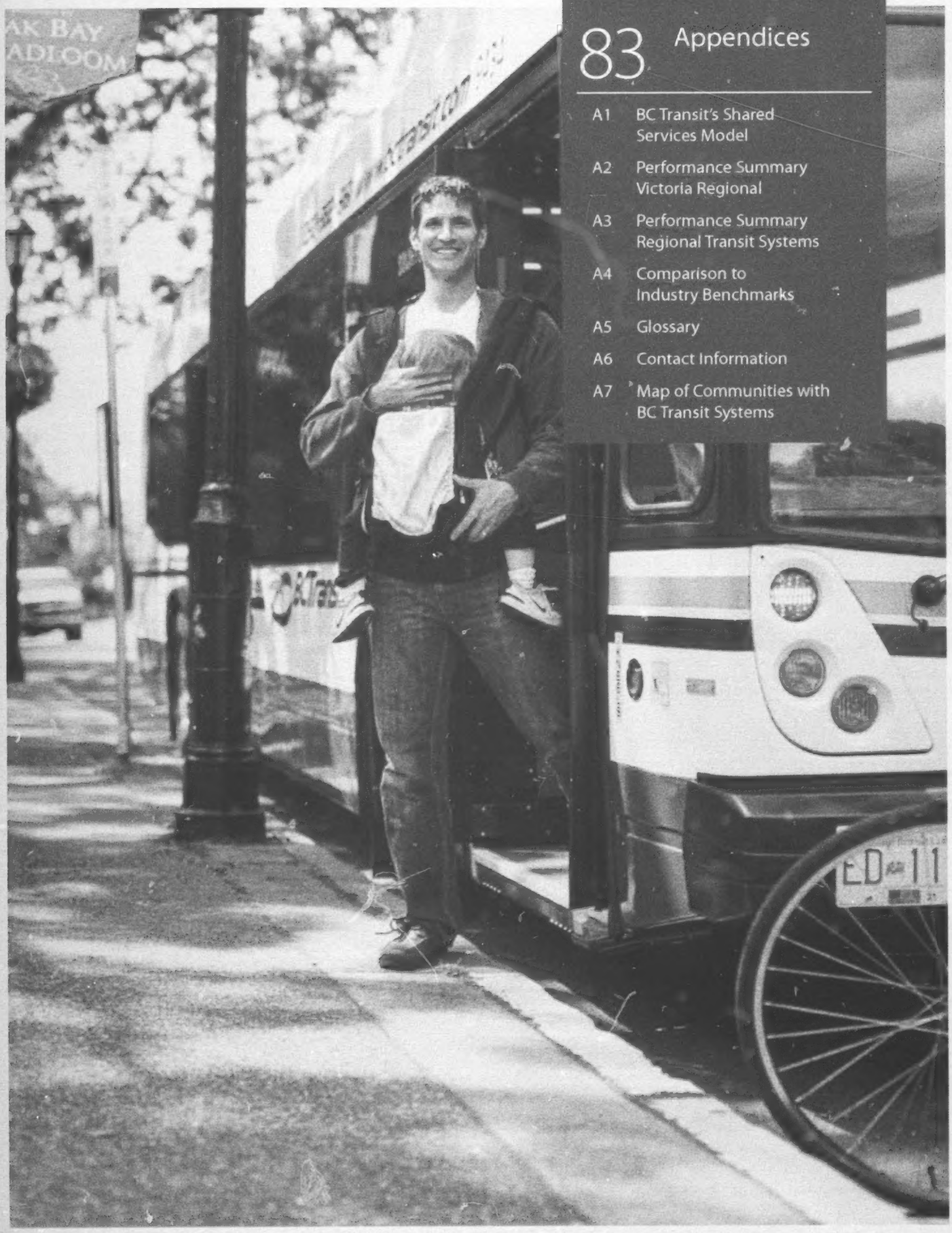
In January 2010, the Board of Directors approved the withdrawal from the Transportation Property and Casualty Inc. Program ("TPCCP"). As a replacement to TPCCP, the Company procured a comprehensive stand-alone insurance coverage program effective April 1, 2010 which is renewed annually. Claims which have been registered and served prior to the withdrawal from the TPCCP program continue to be settled in an orderly manner and the Company will continue to monitor these claims. See note 12 for further details regarding unsettled claims.

20. Subsequent events:

On April 19, 2013, BC Transit executed a fixed price fuel commitment for 480,000 litres ($408,000) of diesel fuel to be delivered in equal quantities in December 2013 and January and February 2014.

21. Comparative figures:

Certain of the comparative figures have been reclassified to conform with current year's consolidated financial statement presentation.



83 Appendices

A1 BC Transit's Shared Services Model

A2 Performance Summary Victoria Regional

A3 Performance Summary Regional Transit Systems

A4 Comparison to Industry Benchmarks

A5 Glossary

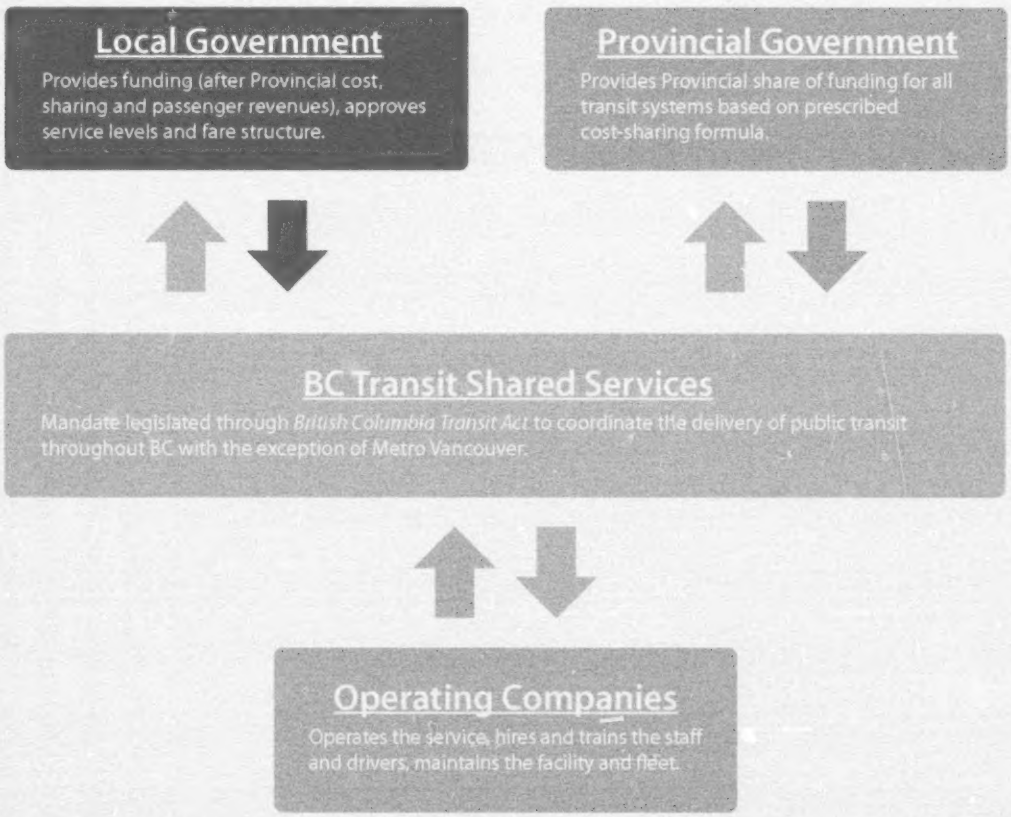
A6 Contact Information

A7 Map of Communities with BC Transit Systems

Appendix A1 – BC Transit's Shared Services Model

OVERVIEW

A shared services model helps to ensure the most efficient and effective delivery of transit services across all transit systems. This appendix summarizes the services provided by BC Transit.


Local Government
Provides funding (after Provincial cost, sharing and passenger revenues), approves service levels and fare structure.
Provincial Government
Provides Provincial share of funding for all transit systems based on prescribed cost-sharing formula.
BC Transit Shared Services
Mandate legislated through British Columbia Transit Act to coordinate the delivery of public transit throughout BC with the exception of Metro Vancouver.
Operating Companies
Operates the service, hires and trains the staff and drivers, maintains the facility and fleet.

In most Regional Transit Systems, service is provided through a partnership between BC Transit, local government, and a transit management company. Under this partnership model, BC Transit provides a variety of shared services available for all transit systems. Local governments provide the local government share (after provincial cost sharing and passenger revenues), approve service levels and fare structures.

A contracted transit management company operates the service, including hiring and training drivers, providing front-line customer service, and maintaining vehicles. A range of private and non-profit companies operate BC Transit's services. In some locations—the Regional District of Nanaimo, City of Nelson, City of Powell River, and the Sunshine Coast Regional District—the sponsoring local government operates the system.

In the case of the Victoria Regional Transit System, BC Transit operates the conventional service, and a private transit management company operates handyDART services through contract. BC Transit's operation of the Victoria conventional system provides the organization with further efficiencies through the sharing of services and operational expertise used to manage contracted transit systems.

BC Transit's collaborative, shared-services partnership model offers value by maximizing efficiency through the use of "common resources", specialization and standardization.

Appendix A1 – BC Transit's Shared Services Model

SUMMARY OF SHARED BC TRANSIT MANAGEMENT SERVICE ACTIVITIES

Below is a summary of the major shared services activities provided by BC Transit to all transit systems across the province.

Planning & Scheduling

- Long range service planning including Transit Future Plans
- Scheduling support, run-cutting & manpower planning
- System, route performance & operational analysis

Finance

- Budgeting, forecasting & reporting
- Financial accounting services
- Treasury & debt management
- Analysis of operating & capital expenditures
- Accessing Provincial & Federal funding

Sales, Marketing & Communications

- Marketing communications
- Promotion of transit
- Tariff product design & production
- Development of revenue strategies & fare reviews

Fleet & Facility Management

- Fleet management standards & practices
- Warranty administration
- Facility maintenance planning & implementation
- Asset acquisition, construction & disposal

Fleet Inspection

- Perform fleet inspections & service audits
- Develop & monitor maintenance & repair standards
- Support investigations related to bus incidences

Supply Chain & Procurement

- Provision of parts & fuel
- Development of procedures, systems and computerized tools to maximize procurement efficiency & value
- Liaison with suppliers and users concerning quality, service & new products

Corporate & Capital Management

- Corporate strategic planning & performance monitoring
- Development & management of multi-year Long Term Capital Program
- Bus stop, terminal & facility planning
- Management of construction projects

Risk Management

- Management of corporate & risk management program
- Claims management
- Establish & oversee risk management policies & procedures
- Oversee insurance program

IT & Corporate Services

- Maintenance of operating systems & software applications
- Planning and implementation of major Information Technology projects
- Maintenance of BC Transit website
- Manage responses to requests made under the Freedom of Information and Protection of Privacy Act (FOIPA)

Contract Management

- Developing & monitoring contracts with local operating companies
- RFP development & contract management
- Oversee property management including leases, agreements & acquisitions

Safety, Training & Security

- Ensure compliance with occupational regulations
- Promoting safety awareness
- Development of emergency response protocols
- Security protocol training

Climate Action & Environment

- Management of climate action & environmental best practices
- Ensure all operations meet or exceed environmental standards
- Develop strategies to minimize GHG & other pollutants from transit vehicles & facilities

Appendix A2 – Performance Summary Victoria Regional

VICTORIA REGIONAL TRANSIT SYSTEM PERFORMANCE SUMMARY

The results for conventional and custom transit in the Victoria Regional Transit System are presented below.

Victoria Conventional Transit *Service, Effectiveness & Efficiency*	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 Corporate Target	2012/13 Variance	
Service hours (000s)	802	797	**775**	800	(25)	(3.1%)
Passenger trips (000s)	24,849	24,952	**23,705**	24,600	(895)	(3.6%)
Passenger trips per service hour	31.0	31.3	**30.6**	30.8	(0.2)	(0.5%)
Operating cost per service hour	$95.08	$101.05	**$104.42**	$103.69	($0.74)	(0.7%)
Operating cost per passenger trip	$3.07	$3.23	**$3.41**	$3.37	($0.04)	(1.2%)
Operating cost recovery	46%	46%	**45%**	44%	1%	1.8%

Victoria Custom Transit *Service, Effectiveness & Efficiency*	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 Corporate Target	2012/13 Variance	
Service hours (000s)	116	117	**120**	120	0	0%
Passenger trips (000s)	401	401	**407**	399	8	2.0%
Passenger trips - van only (000s)	298	300	**306**	294	12	4.1%
Passenger trips per service hour – excl. taxi	2.6	2.6	**2.6**	2.5	0.1	4.1%
Operating cost per service hour – excl. taxi	$59.45	$60.80	**$61.98**	$64.06	$2.08	3.2%
Operating cost per passenger trip – excl. taxi	$23.14	$23.71	**$24.31**	$26.15	$1.84	7.0%
Operating cost recovery– excl. taxi	5%	5%	**5%**	5%	0%	(1.8%)

Note: Certain comparative figures have been restated to conform with the current year's presentation and methodology.

Appendix A3 – Performance Summary Regional Transit Systems

REGIONAL TRANSIT SYSTEMS PERFORMANCE SUMMARY

The results for conventional and custom transit in the Regional Systems are presented below.

Regional Conventional Transit *Service, Effectiveness & Efficiency*	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 Corporate Target	2012/13 Variance	
Service hours (000s)	899	907	**909**	923	(14)	(1.5%)
Passenger trips (000s)	23,910	23,759	**23,551**	24,394	(843)	(3.5%)
Passenger trips per service hour	26.8	26.2	**25.9**	26.4	(0.5)	(2.0%)
Operating cost per service hour	$92.39	$97.29	**$100.51**	$102.68	$2.18	2.1%
Operating cost per passenger trip	$3.44	$3.71	**$3.88**	$3.89	$0.01	0.2%
Operating cost recovery	32%	31%	**30%**	30%	1%	2.2%

Regional Custom/Para Transit *Service, Effectiveness & Efficiency*	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 Corporate Target	2012/13 Variance	
Service hours (000s)	337	349	**352**	366	(14)	(3.8%)
Passenger trips (000s)	1,823	1,928	**1,936**	1,960	(24)	(1.2%)
Passenger trips - van only (000s)	1,647	1,747	**1,751**	1,771	(20)	(1.1%)
Passenger trips per service hour – excl. taxi	4.9	5.0	**5.0**	4.8	0.1	2.8%
Operating cost per service hour – excl. taxi	$64.53	$67.79	**$69.36**	$70.87	$1.50	2.1%
Operating cost per passenger trip – excl. taxi	$13.20	$13.54	**$13.94**	$14.65	$0.70	4.8%
Operating cost recovery– excl. taxi	14%	13%	**13%**	12%	1%	7.1%

Note: Certain comparative figures have been restated to conform with the current year's presentation and methodology.

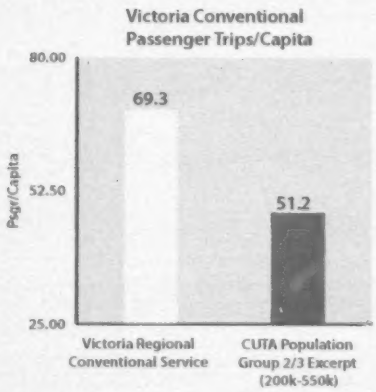
Appendix A4 – Comparison to Industry Benchmarks

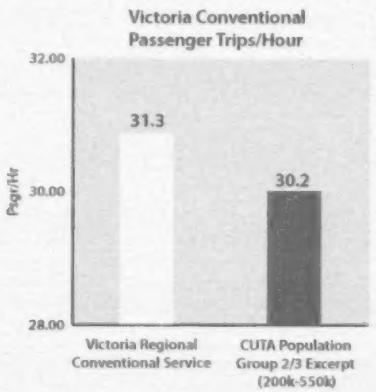
A review of the performance of the Victoria Regional Transit System and Regional Transit Systems elsewhere in the province provided the following summary of comparative results based on figures supplied by the Canadian Urban Transit Association (CUTA).

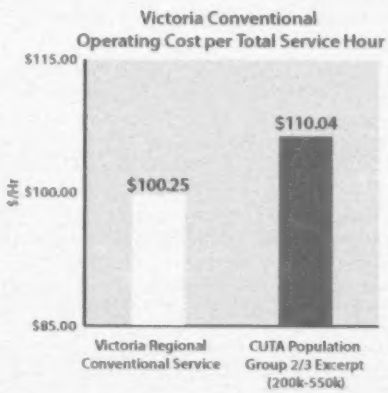
Performance of BC Transit's systems in 2011/12 is also benchmarked against comparable Canadian transit systems using the most recently available data from CUTA for 2011 or 2011/12. The performance ratios selected are the most common measures used by the North American transit industry to gauge and compare service effectiveness and efficiency.

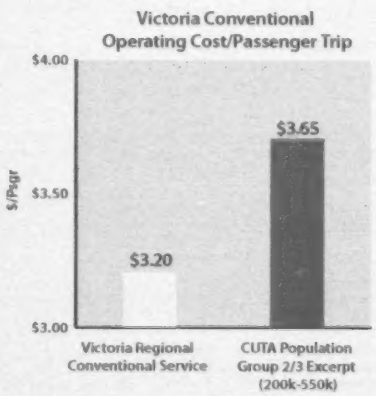
VICTORIA REGIONAL TRANSIT SYSTEM BENCHMARKS

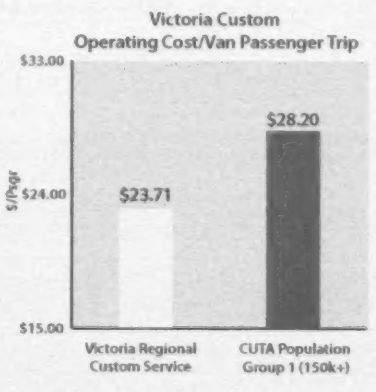
The Victoria Regional Transit System conventional service is compared with similar systems reporting to CUTA (service area population 150,000 – 499,000). The Victoria custom service is compared with similar systems in the CUTA Specialized Transit Population Group 1 (service area population greater than 150,000).

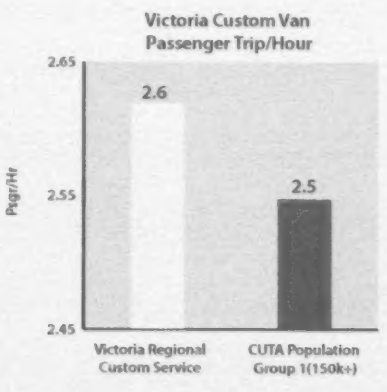








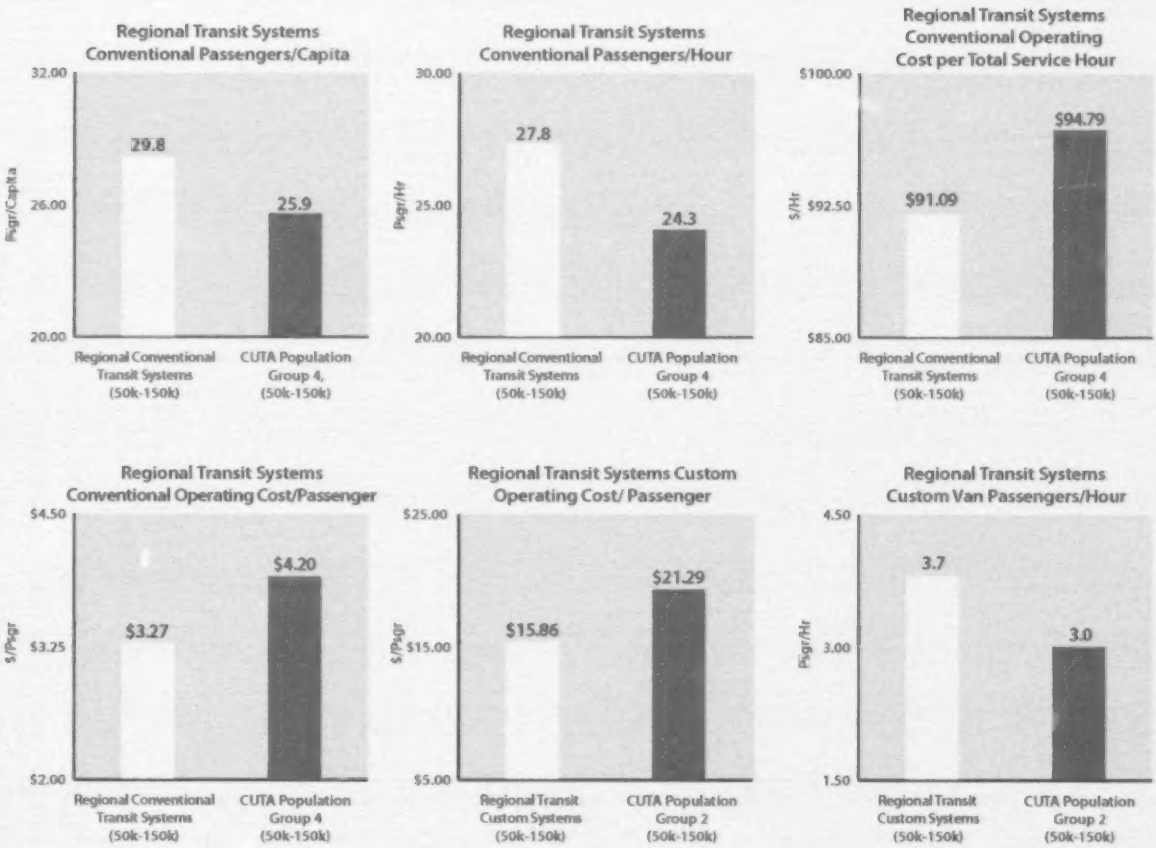




REGIONAL TRANSIT SYSTEMS BENCHMARKS

In the case of the Regional Transit Systems, the six largest conventional transit systems are averaged and compared with the CUTA Urban Transit Population Group 3 (service area population 50,000 – 150,000).

The Regional Transit Systems custom program averages the eighth largest systems to compare with the CUTA Specialized Transit Population Group 2 (service area population 50,000 – 150,000).



Appendix A5 – Glossary

Accessible buses – Accessible buses are able to accommodate riders who have wheelchairs and some types of scooters. Accessible bus stops are marked with the international wheelchair symbol.

Annual Operating Agreement (AOA) – Annual three-party agreement specified by the *British Columbia Transit Act* to establish services, fares and funding.

Average fare – Total revenue from passenger fare sources divided by ridership from fare sources.

Biodiesel – Biodiesel is a combination of a clean burning non-toxic biodegradable alternative fuel combined, at any percentage, with diesel to be used in diesel engines. The biofuel component is produced from renewable sources such as vegetable oil and animal fats. Minimum renewable fuel content in fuels was regulated in British Columbia through the Renewable and Low Carbon Fuel Requirements Regulation (December 2009)

Canadian Urban Transit Association – CUTA is the association for providers of urban transit services and the voice of the public transit industry in Canada.

Capital costs – Total funds used by a company to acquire or upgrade capital assets such as fleet, facilities and equipment.

CO2e – Carbon dioxide equivalent - means the mass of carbon dioxide that would produce the same global warming impact as a given amount of another greenhouse gas, as determined using the 100 year time horizon global warming potential set out in column 4 of the schedule of the Carbon Neutral Government Regulation.

Community Bus – Minibuses on fixed routes used to efficiently serve lower density/suburban markets and feed the mainline bus networks.

Componentization – Componentization is where an asset is broken down into its major components that have significantly different useful lives for the purpose of amortization.

Compressed Natural Gas (CNG) – An alternative fuel for internal combustion engines that is considered to have financial and environmental benefits relative to petroleum or diesel based fuels.

Conventional transit – Serves the general population in urban settings using mid-sized, large or double-deck buses. The buses are accessible and low-floor and run on fixed routes and fixed schedules.

Custom transit – Employs vans, minibuses and taxis for dial-a-ride and door-to-door handyDART service for passengers with disabilities who cannot use conventional transit.

Cost-sharing agreement – An agreement between BC Transit and the municipality for the provision of transit service or the development of a transit study.

Double-deck bus – BC Transit's low floor double-deck buses are 12 metres (40 feet) long, 2.5 metres (eight feet) wide, and 4.3 metres (14 feet) tall. Compared to a single deck, 12-metre bus, the double-deck bus provides a 120 per cent increase in seated carrying capacity.

Effectiveness – A measure of the ability of the transit system to carry out the required services.

Feasibility study – A study performed by BC Transit to determine if there is sufficient demand for a transit system and a business case to warrant local funding.

handyDART – Custom door-to-door service for those passengers who cannot use conventional transit due to a disability. Riders must be registered with the handyDART office before they can use the service. Also known as custom transit, handyDART stands for handy Dial-a-Ride-Transit.

Hybrid vehicle – A vehicle that uses two or more distinct power or fuel sources. The term most commonly refers to a hybrid electric vehicle which combines an internal combustion engine and an electric motor powered by batteries.

Hydrogen fuel cell – An electrochemical energy conversion device that uses hydrogen gas to produce electricity, water and heat. It operates much like a battery but does not require recharging. If sufficient hydrogen fuel is available it can generate electricity almost indefinitely.

Low floor bus – Designed for easy boarding so the entire floor is close to the pavement with no entry steps. For passengers who use walkers, crutches or who have difficulty stepping up, all low floor buses have a kneeling feature that lowers the entry level even further and provides a ramp for wheelchair and scooter access. Low floor buses also enable easier boarding for all passengers, including parents with strollers.

Master Operating Agreement (MOA) - Annual three-party agreement establishing operational requirements of contracted transit system management companies forming part of the AOA.

Mode – A form of travel, e.g., transit, pedestrian, bicycle, automobile, or mixed mode such as bicycle and transit.

Municipality – For the purpose of agreements under the *British Columbia Transit Act*, municipalities are defined as cities, townships, villages, or regional districts, or a combination of these, involved in the operation, funding or feasibility assessment of a transit system. Also referred to in this document as "local governments."

Operating cost – The sum of all costs associated with the operation, maintenance and administration of the transit system during a specified period excluding depreciation and interest paid on loans for capital outlays.

Operating cost recovery – Reflects annual operating revenue divided by total operating cost. This ratio indicates the proportion of costs recovered from operating revenue. Fares are established by the local partners. A strong cost recovery is desirable, as it reduces the subsidy from the taxpayer. This factor, however, is a municipal policy decision.

Operating cost per service hour – Reflects annual operating cost divided by annual total service hours. The ratio also reflects efficiency. Increasing cost per hour indicates operating costs are increasing faster than service hours.

Operating cost per passenger trip – Reflects annual operating cost divided by annual passenger trips carried. This ratio indicates the efficiency of transit expenditures directed toward passengers carried. Consistent or decreasing cost per passenger trip indicates that ridership is growing faster than costs.

Operating company – The company selected to operate the transit system under the terms of the Transit Service Agreement and the Annual Operating Agreement.

Paratransit – Serves small town and rural B.C. as well as some suburban areas using minibuses, taxis and vans for flexible routing and schedules.

Passenger trips – Represent trips made by transit riders who have made one fare payment to use the transit service. Passengers who use a transfer and board more than one bus to complete a trip are only counted once.

Passenger trips per capita – Reflect annual passenger trips carried divided by regional population. This is a measure of market share and effectiveness in services that transit markets.

Passenger trips per service hour – Reflect annual passenger trips divided by annual total service hours. This ratio is a primary measure of the effectiveness of the service provided. The ratio improves with higher ridership, lower average trip lengths, or higher average speeds.

Peak period (or Hours) – That period of time during a typical weekday in which the maximum amount of travel occurs. Usually a morning and evening peak are observed as a result of work and school related trips. The opposite of peak period is base or off peak period.

Per capita – Estimates use population figures from the most recently published census, adjusted annually by B.C. Statistics and collated for the respective Transit Service Area by BC Transit.

Performance measures – Are statistical ratios combining system outputs, and transit service area statistics to benchmark performance within the industry and operational trends over time.

Platform hours – Revenue service hours plus deadhead and extra hours for recovery, less cancelled service hours.

Rack prices – The price which refineries sell petroleum products excluding transportation, overhead and profits.

Rapid transit – A transit system route designed to improve travel time, reliability, passenger comfort and convenience along a corridor that may provide transit priority measures or an exclusive transit only right-of-way. It provides high-frequency service (every 5-10 minutes) all day, every day.

Service hours – Represent the total number of hours that the transit fleet is in regular passenger service.

Service Review – Comprehensively analyzes all services (conventional, custom and/or paratransit) within an existing transit system and makes recommendations to improve its effectiveness and efficiency. Typically completed for communities with populations less than 25,000 whereas BC Transit develops Transit Future Plans for communities with populations greater than 25,000.

SMARTTool – The web-based tool developed, owned and hosted by Shared Services BC, the Ministry of Labour, Citizens' Services and Open Government and used for estimating and reporting on greenhouse gas emissions.

Stage 1 – The first stage of preliminary site investigation (PSI) which involves searching existing records for information about a site, interviewing people who are, or have been, involved with the site.

Stage 2 – The second stage of a PSI which determines the general location and degree of any contamination by collecting subsurface samples.

Statistics – Include operational outputs and transit service area statistics. These factors, when used in a ratio indicate commonly compared industry standard performance measures.

Taxi saver program – "Taxi Saver" is the name of a discounted coupon program which provides registered handyDART clients with taxi coupons at half price, in participating communities.

Tier 1 – A conventional transit system whose service area population is over 50,000.

Total revenue – Includes passenger and advertising revenue. It excludes property tax and fuel tax revenue.

U-PASS – Universal bus pass at participating post-secondary institutions where all students at the institution pay a discounted fee for a bus pass through their Student Union.

Appendix A6 – Contact Information

BC TRANSIT SENIOR LEADERSHIP TEAM

Manuel Achadinha, President and CEO

Mike Davis, Vice President, Operations and COO

Michael Kohl, Vice President, Finance and CFO

Brian Anderson, Vice President, Business Development and CIO

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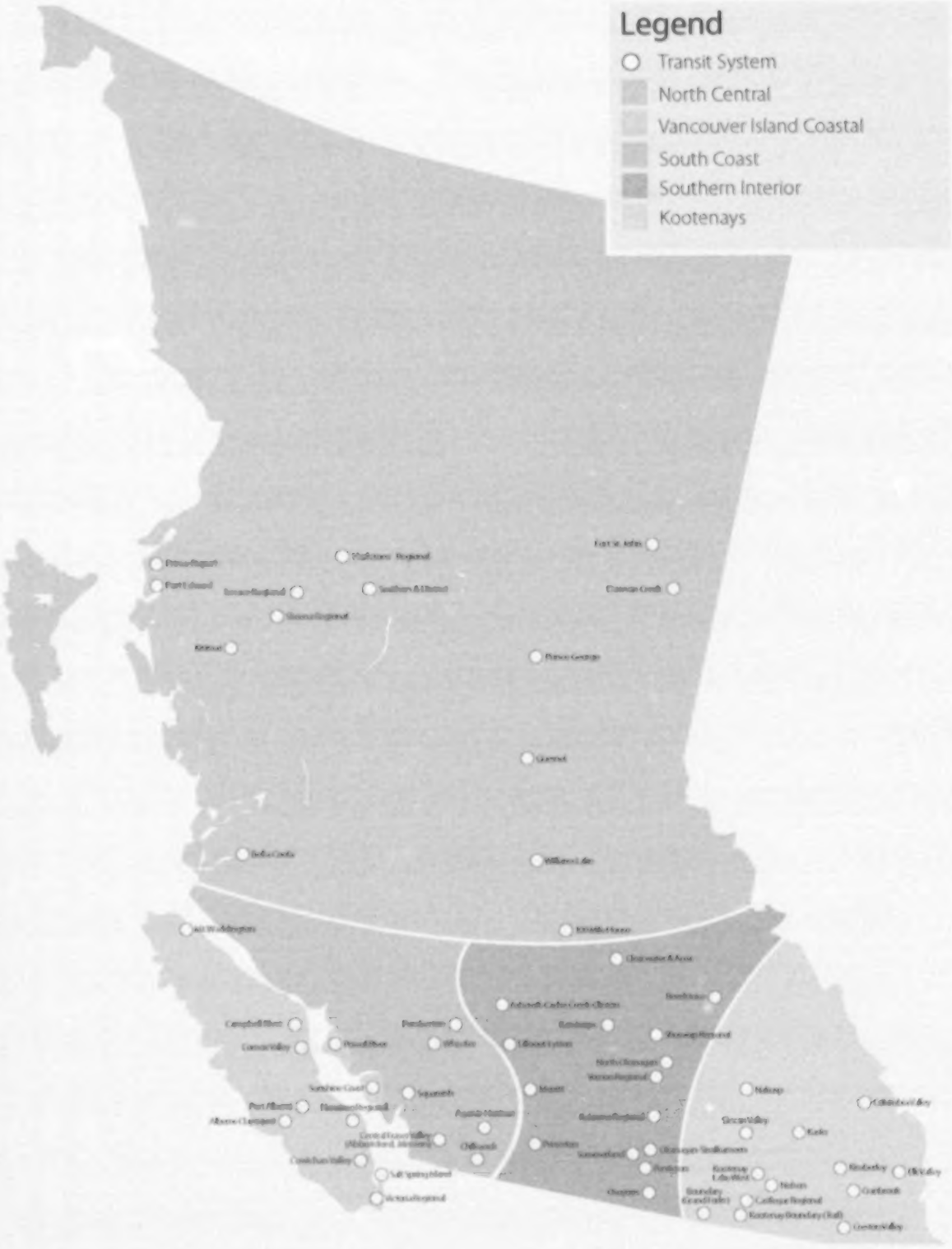
BC Transit's Annual Reports are available on BC Transit's website at www.bctransit.com.

Appendix A7 – Map of BC Transit Systems



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